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FOREIGN MARKET ENTRY OF NAVERTICA, PLC.

VSTUP NA ZAHRANIČNÍ TRH SPOLEČNOSTI NAVERTICA, A.S.

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Proposals and Contribution of Suggested Solutions
Conclusions

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Abstrakt

Tato diplomová práce se zabývá analýzou vstupu firmy NAVERTICA,a.s. na Jihoafrický trh. Práce obsahuje analýzu společnosti a současné situace na trhu v Jižní Africe. Je aplikována kritická analýza literatury na dané téma společně s analytickými metodami. Opodstatněná doporučení, zda-li vstoupit na cizí trh a jakou formu vstupu zvolit, jsou dána. Tato doporučení jsou založena na vyhodnocení výsledků analýz této diplomové práce.

Abstract

The thesis deals with an analysis of foreign market entry into South Africa and it is focused on company NAVERTICA, PLC. The thesis contains analysis of the company as well as the analysis of the current business environment in South Africa. The literature on this topic is critically reviewed and analytical methods are consequently applied. Justified recommendations to the company, whether to enter the market or not and what form to choose, are given based on the evaluation of findings in this thesis.

Klíčová slova

NAVERTICA, a.s., vstup na zahraniční trh, PESTLE, konkurence

Key words

NAVERTICA, PLC., foreign market entry, PESTLE, competition

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Statutory declaration

I declare that submitted master's thesis is authentic and worked up independently. I also declare that citations are complete and copyrights are not violated (pursuant to Act. No. 121/2000 Coll, on copyright and on laws related to copyright Act.).

Brno, 29.8.2014

Bc. Martin Klimo

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1 Introduction

It is natural development for a company, such as NAVERTICA, to search for opportunities to expand their activities to a foreign market and to sustain its growth after they have been constantly very successful on the domestic, in this case Czech, market. Nowadays, a company doesn't have to be a big multinational enterprise (MNE), in order to benefit from the present globalization of markets. The world is shifting towards integrated global economy and more and more firms, small or large, are becoming truly international businesses by reaching out there and finding possible new markets to conquer.

This thesis is intended to provide a very useful tool for NAVERTICA company, on which the company can establish their decision-making process whether to expand their operations into South African market or not and what form of expansion to choose.

2 Objectives and methods

The main objective of this thesis is to propose a market entry strategy to NAVERTICA, PLC. for entering the South African market. In order to propose recommendations to the company whether to enter the market or not and what form to choose, additional objectives must be achieved. The literature of the selected topic must be critically review by the author. Moreover, analysis of the company must be conducted as well as analysis of the external business environment of South Africa. Summarizations of the findings will be presented in the end of this thesis and the most critical indicators will be pointed out and evaluated. In the very end, justified recommendations to the company will be given.

The methodology in this thesis is as follows:

- Critical literature review
- Analysis of the current situation
- Internal analysis of NAVERTICA company
- Analysis of the industry and the business environment
- Evaluation of the findings
- Proposal of recommendations

Throughout the thesis, general theoretical frameworks are applied as well as analytical methods, such as PESTLE analysis, Porter's 5 forces analysis or S.W.O.T. analysis.

The data are obtained from academic journals, literature, relevant internet sources as well as internal documents of NAVERTICA.

3 Theoretical basis of the work

3.1 Internationalization of the firms

Nowadays, a company doesn't have to be a big multinational enterprise (MNE), in order to benefit from the present internationalization of markets. The world is shifting towards integrated global economy and more and more firms, small or large, are becoming truly international businesses and to be part of this, all the company has to do is go international (Hill, 2008).

But what are the main reasons behind internationalization of the firms? The reasons for a company to go international are many, but the most common one is connected with the possibility to expand internationally and improve the profitability and growth of the firm. According to Mintzberg (1989), this has been a commonly accepted assumption in the business environment. Mintzberg (1989) also maintains that internationalization is a process in which companies enlarge their respective markets in order to reach new clients from foreign countries. However, there is currently no agreed definition of internationalization. Welch and Luostarinen (1988) define internationalization as “*the process of increasing involvement of enterprises in international markets*”. While Welch and Luostarinen understand internationalization as a process of increasing firm's involvement in international operation, Porter (1985) conversely states that internationalization is a continuous relationship of individual companies and nations through globalization which has caused that companies move from their domestic markets on to the international stage in order to gain sustainable advantages among their competitors.

There are actually many different reasons for a company to penetrate international markets, but every company has its own unique rationalization behind this decision. Elmuti and Kathawala (2011) state, that for some companies the reasons behind going international could be the crisis in the company. They seek to start their business fresh somewhere else to gain growth and to prevent loss of the business in the first place. The downfall of this decision is often the threat of losing customers on the domestic market because the focus shifts on the new foreign market. The possibility of decreased

confidence is high from the side of customers, thus the clients demand can be lower. However, there is expected growth on the foreign market for the company. This is also the main goal of the company while going international. In this case, the bigger market, the better possible profit. The reason behind international expansion could be also preventing the domestic competitors to gain advantage on the new market. This is supported by Hill (2008), who states that when a company decides to enter foreign market which is not served by the competition, many of those rivals follow to be able to prevent the competitor from getting a head start in new market and gaining an advantage. Therefore, internationalization can be perceived as aspiration for getting market dominance before the competitors take their chance.

3.1.1 The Uppsala model of internationalization

In order to identify the main stages of internationalization, the widely known Uppsala Model is applied by the author. This model helps to analyse the influence of globalization on the internationalization process. The model, which is also known as the stage theory of internationalization, was developed in 1977 by Johansson and Vahlne and it presents the concept of the internationalisation process of a business. It is one of the most accepted paradigms in this sector.

The Uppsala model maintains that the knowledge, which is gained mainly from experience of the company, is the main driving factor and force behind the process of internationalization of a firm. According to Johansson and Vahlne, the enterprise start its process of internationalization first on geographically close markets and then its focus is shifting towards more distant ones. The model assumes that internationalization is a slow process each business, which is willing to expand to foreign markets, needs to go through. The experience of the company from previous foreign activities is the driving factor in order for the company to achieve desired level of internationalization. The Uppsala model also outlines that making smaller steps in the process of internationalization is the key to success, rather than making large foreign investments in a short period of time. The best approach according to Johansson and Vahlne is to

start foreign operations by using traditional expansion techniques and then gradually move to using more intensive and demanding operation modes, such as subsidiaries or joint ventures.

3.1.2 Stages of internationalization

In their study, Johansson and Vahlne came up with the conclusion that every company, which is intending to expand their activities on international scale, have to go through particular four stages of internationalization. These stages are identified according to Uppsala model as follows:

➤ ***Stage 1 – Sporadic export with no regular export activities***

This stage is a first step in process of internationalization according the Uppsala model. It is the first step the company has to undertake while entering the foreign market. Exporting goods, knowledge and technology or services at the first stage gives the company very limited market awareness, because the products are directly exported from the domestic country, mainly from the company's headquarters.

➤ ***Stage 2 – Export modes via independent sales representatives***

In this particular stage of internationalization, the company develops and establishes its export channels, which are indirect with the use of intermediates, those mainly being local distributors in the foreign country to whom the goods or services are exported/transferred. The company in this stage starts to gain additional knowledge about distribution and information channels in the foreign country as well as desired experience on the foreign market which is crucial for their next business activities.

➤ ***Stage 3 – Establishment of a foreign sales subsidiary***

The establishment of a foreign sales subsidiary is the third stage of the internationalization process according to Uppsala model. In this stage, company establishes and opens their subsidiary in the foreign country. Due to the fact that the business has already acquired needed knowledge and crucial information of the market during the first two stages, it is now able to their own subsidiary. The outcome of this is that the company can more easily control or manage their business activities and operations on the foreign market.

➤ ***Stage 4 – Foreign production/delivery of services***

This is the final stage of the whole process of firm's internationalization. Establishing the subsidiary in the foreign country is conditional for this stage as the company should be able to manufacture or deliver their products and services from the foreign subsidiary with no further need of interfering of the domestic establishment. The experience gained at this stage is sufficient enough for the company to stand alone and focus on their own production. By this, the business becomes fully internationalized.

To summarize, the stages of internationalization are a result of company's development on the international market. In order to gain more market knowledge and experience, the company needs to move from one stage to another, subsequently. With this, the company's market commitment increases accordingly and the level of company's internationalization increases simultaneously. It is however a common phenomenon, that companies often skip some steps and they try to establish their subsidiaries as a first activity on a foreign market, which often results in insufficient knowledge of the foreign market, thus losing competitive advantage and experience with the market.

3.2 International strategy

The development of a strategy has an important role to play in achieving success. Every company has to compete and strategize against their competitors in a fierce fight if they want to dominate in their business field. This is supported by Scholes and Wales (2000), who define that each business has to fight very hard to be successful and also to preserve the market position. They also state that it is crucial to develop a strategy, which would assure future success of the company. Nowadays, there are many possibilities how to approach this issue. Casadesus-Masanell and Ricart (2010) outline that the strategy field has developed immensely during the last twenty-five years. According to them, firm needs to be able to analyse their competitive environment in order to understand how to sustain advantage while facing competitive challenges and threats. This is furthermore supported by Busenitz and Barney (1997), who maintain that in order to choose the right international strategy of a company, the detailed evaluation of the environment must be conducted. This is also supported by Scholes and Wales (2000), who define that “*the process of strategic choice builds on the information gained from strategic analysis.*”

3.2.1 Foreign market entry and its triggers

So what are the main drivers for the whole process? The transformation of company's strategy from national to international involves the change of external and internal triggers. The internal triggers might include new strategy, job redesign or more resources that need to be researched (Verbeke, 2009). While speaking about external triggers, according to Roberts (2004), these are for example globalization, regulations and laws, hypercompetition or technological innovations. These triggers are constantly changing and the figure below shows how the triggers influence decisions in a company:

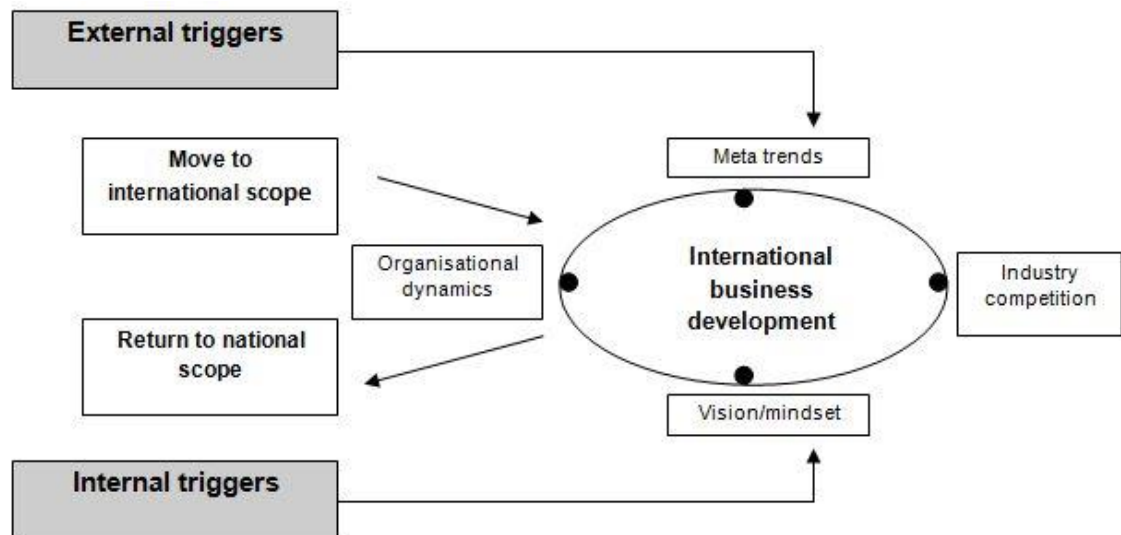


Figure 1: *International strategy triggers (Roberts, 2004)*

There are naturally different ways of response to these triggers. Proactive and reactive response depends on which triggers affect the international development the most. Companies who don't seem to change their international strategy until they are forced by the situation around them, are seen as reactive companies. Whereas companies, which have the "luxury" to decide whether they want to go international or not, are seen as proactive. Once a company decides to expand to a foreign market, its internal and external triggers will shape the strategy. These factors have direct impact on company's market entry and their development strategy. Moreover, the choice of international market entry strategy bears lot of "narrow strips" with it because one wrong decision in this process can bring huge penalties. Nevertheless, this is the risk companies have to undergo while thinking about international expansion. It does not concern only their financial resources, but also time spent on the whole process. On the other hand, there are huge motivational aspects which are pro-expansion nature. Mainly the potential company's growth. The decision, whether to expand or not, can be made either based on their own judgment, or they can eliminate the possible risk and put effort into carefully analyzing the foreign market and all the factors and conditions on it (Thompson, 2001).

There are of course many angles how to perceive an international expansion and its triggers. McCall (2004) maintains that there are three phases of international expansion and their model indicates the strategic decision required for each phase:

➤ ***Phase 1 – Initial entry***

During this phase the management of the company selects the country and the entry mode for the expansion. These entry modes range from establishing new subsidiary to mergers, acquisitions, joint ventures, strategic alliances or information partnerships.

➤ ***Phase 2 – Local market expansion***

The timing and sequencing in this phase is directly influenced by the progress in phase 1. In phase 2, the company extends its activities in the foreign market. Their strategy is then adapted in order to cope up with the country's demands. When the expansion widens, further co-operation between company and the country's environment is expected. Developing of international brands and strategies is expected.

➤ ***Phase 3 – Global rationalization***

The global expansion in phase 3 leads to the integration of operations between domestic and target country. It is expected to achieve balance between a firm's product portfolio and growth on the foreign market.

There are variable triggers for the three phases mentioned above and they are specific for each firm. They can be both external and internal. According to McCall, the external triggers are mainly environmental factors, such as industry trends and competitive pressures. Internal triggers are sales, profits and management initiatives. Each company responds to the triggers in its own way. The triggers for each phase are as follows:

➤ ***Phase 1 triggers***

- Saturation of domestic market

- Movement overseas of domestic customers
- Sourcing opportunities
- Diversification risk
- Entry of foreign competition to home market
- Desire to keep abreast of technological changes
- Government incentives to export
- Advances in communications technology and infrastructure

➤ ***Phase 2 triggers***

- Local market growth
- Meeting local competition
- Local management initiative and motivation
- Desire to utilize local assets
- Natural market boundaries

➤ ***Phase 3 triggers***

- Emergence of global customers
- Emergence of global competition
- Development of global infrastructure
- Cost inefficiencies

3.2.2 Foreign market entry modes

It is essential for a company, which is entering a foreign market, to select the proper market entry mode. There are many different market entry strategies and they each carry different risks and the selection of the right mode is a critical factor in company's foreign expansion. According to many authors, such as Wall, Minocha and Rees (2010) or Terpstra and Sarathy (2001), the company can choose between three modes of market entry:

3.2.2.1 Export based methods

Exporting has a lot of advantages, the biggest being the easiness of implementing this strategy. It is the most common mode of foreign operations and companies often start their international activities with it. Breman and Tevfik (2001) define that exporting and continued exporting can be perceived as main strategy of a company which does not want to go beyond a certain level of export without going further into joint ventures, licensing or global manufacturing. According to Breman and Tevfik (2001), there are two main types of exporting modes: direct and indirect:

➤ ***Indirect exporting***

The indirect exporting method is when the company itself doesn't do any international activity, but mainly focuses on dealing with intermediates and other parties, who are focusing on selling the products on the foreign market. These products are either sold directly to the end customers or imported to wholesalers. The easiest way how to export indirectly, is selling products to partners in the home country who further sell your product abroad. The other parties often prepare the needed documentation, take responsibility for the distribution and they offer their distribution channels as well. The apparent advantage of this entry mode is lowering costs and risks. When the company uses this method in order to sell their products, it is not normally responsible for the payment collection from the foreign customer, nor it is responsible for the logistics. The disadvantages of this method are: loss of profits, loss of control over foreign sales or loss of possibility to tailor the products to fit the customer's evolving needs.

➤ ***Direct exporting***

Direct exporting is much less complicated method. It brings a lot of advantages as well as disadvantages with it. Using this method, the company exports directly to one or more customers in the foreign country who are interested in buying their products. With this method, the firm's responsible for handling the

market research, the distribution in the foreign country as well as logistics and payment collection. The interaction between the company and the customer is on a very different level than in indirect exporting method. The advantages of this method are that the profits can be way higher due to the elimination of intermediates, the level of control over the whole process is higher, there is better understanding of the foreign market place or the response time frame for adjusting products to customer's needs is way more efficient. While talking about disadvantages, the main are that way more people are required to be able to use this method and the company has to handle all the logistics of the transaction and it is responsible for whatever might happen during the process. It also takes way more time and energy and resources.

3.2.2.2 Non-Equity based methods

According to Wilkinson and Nguyen (2003), the non-equity entrance modes are without any degree of ownership. Companies sell their know-how or technology together with their intellectual rights and copyrights, as well as trademarks. These methods are often used by multinational companies (MNE's) and included in these methods are contractual agreements, such as licensing or franchising.

➤ *Licensing*

Companies often use this method of market entry, when they want to have direct investment in a foreign market without having to “do” much. It is a process of leasing a legally protected entity – for example logo or trademark or name. According to Onkvisit and Shaw (1989), licensing is an agreement between firms, where the license permits the other side to use its industrial or intellectual property, skills or designs or services on a foreign market. Without this license, the activity on a foreign market would be legally forbidden. Licensing is used widely in the business field and companies often consider licensing as a significant tool for their marketing. The main advantage of this method are

smaller trade barriers. Companies often use licensing when their funds are limited, importing restrictions are high or there are too high costs of transportation. Licensing enables a company to get on a foreign market without any significant obstacles. Disadvantage of this solution is that it is probably the least remunerative strategy of all. Also the process of licensing gives the potential future competitor the needed know-how and inside knowledge. Also there is a risk of loss of product's image when the licensing agreement doesn't go well between the two parties, therefore it is crucial to negotiate the right license terms.

➤ ***Franchising***

Another form of market entry mode which is non-equity based, is called franchising. This solution of foreign market entry is often chosen by companies which are cooperating with higher number of foreign partners. The franchisee purchases the rights from the franchiser in order to do business activities in the foreign market by using the franchisor's trademark and name. The know-how of the franchiser is also transferred to the franchisee together with other important aspects. This method allows to share a successful way of how to do business and proven marketing system as well the distribution system. It usually serves people with common goal to dominate the market and to acquire more customers than competitors. In short, franchising is a network of interdependent business relationships.

3.2.2.3 Equity-based methods

Another forms of entering the foreign market are equity-based methods. According to Wilkinson and Nguyen (2003), this mode involves a certain degree of ownership and it includes joint venture/strategic alliances and manufacturing and also greenfield operations. The mentioned methods have a lot of advantages. The main being that the possible profits don't have to be shared with any other parties and there is the highest possible level of control over the operation.

➤ ***Greenfield operation***

This kind of operation is one of the hardest possible to do while penetrating the foreign market. It is more or less establishing completely new subsidiary in the foreign market. Greenfield operation is a form of investment, where the home company decides to start completely new venture or subsidiary in the foreign country by acquiring or constructing new facility from scratch. It is followed by hiring new employees from the local market, thus creating new jobs in the foreign country.

➤ ***Joint ventures / strategic alliances***

This another strategy of foreign market entry is a partnership on a corporate level and it is a partnership of two or more companies. According to Onkvisit and Shaw (1989), it is about sharing ownership and control between two or more investors. Performing such strategy has both advantages and disadvantages with it. Probably the biggest benefit of this method is that partner's contribution in money resources and workforce is significantly reduced. Also for some companies it is better to find a partner and make alliance with him rather than start exporting. The reason behind this is apparent: money. But there are some limitations as well. It is related to decision-making policy. If such a policy is not established by both parties, it could delay the decision-making process. And time is money in business. Therefore, the choice of partner must be done very carefully.

➤ ***Manufacturing***

The manufacturing process is another market entry mode method, which involves all or some manufacturing in the foreign country. This has been a developing trend over the last 10 years, mainly when companies are outsourcing their manufacturing activities to countries, where the manufacturing process is significantly cheaper than in the home country, such as China. The manufacturing can be done by sourcing or invading. Sourcing is considered manufacturing in the foreign country with no intention of selling the products there. The other method, invading, is focused on setting a production base in a

foreign market to be able to invade the market in question. The most important motive behind this is cheaper workforce and production costs, which are lower. The other factor is transportation costs. When the company focuses on a certain market, it is convenient for the company to set up a manufacturing base in that country in order to lower the transportation costs to minimum, therefore the company can make their products more price competitive.

3.3 External business environment analysis

In order to analyze the business environment of a foreign country, some theoretical frameworks have to be applied. The target market, where company wants to start their international operations, can be analysed by the PESTLE analysis, which is a tool that involves 6 perspectives which all together provide one coherent structure, which is necessary for the future decision-making process of a company. This tool helps to make crucial decisions whether to enter the foreign market or not. Thanks to this tool, the company can more easily understand the business environment of the new market and take an advantage by increasing the awareness of the market (Porter, 1980).

3.3.1 PESTLE analysis

As mentioned above, the PESTLE analysis is an ultimate tool which helps to analyze the business environment on the foreign (or domestic) market. In accordance with Bowhill (2008), it provides us with 6 perspectives, which are described below:

➤ *Political factors*

These factors, which are identified in the PESTLE analysis, refer to government policy and the government intervention in the economy. These regulations can

impact the company and its activities on a bigger scale. The policy in the foreign country plays an important role while determining regulations on the market. The factors most usually included in this part of the analysis, are: political stability / instability, foreign trade regulations or corruption.

➤ ***Economical factors***

The economical factors are mostly represented as inflation rates, exchange rates, interest rates, employment / unemployment rate or other economic indicators, such as economic growth measured by GDP of the country or taxation. These factors have big impact on how the business operation is carried out in the future. For example the exchange rates directly affect the company because it affects the costs of imported / exported goods or services or the interest rates influence the cost of capital.

➤ ***Social factors***

These factors identify some cultural and demographic aspects of the market. Such factors can be language or criminality in the country or for example lifestyle changes or labor and social mobility. Major changes in these factors can have direct impact on the business and therefore the study of these factors plays very important role because it can help the organization understand the environment , thus it is crucial to identify them in advance using this method.

➤ ***Technological factors***

Because of the continuous development in the field of technology, the identification of crucial technological factors is very important, especially when an organization wants to launch a new business. The technological factors may include changes in information technology, changes in mobile technology, rate of technology transfer, new inventions and development or life cycle & speed of technological obsolescence. Good technology can significantly reduce costs or improve the quality of offered services / manufactured products.

➤ ***Legal factors***

Legal factors often include monopoly or merger legislation, health and safety, insolvency, cross-border trading, punctuality in paying taxes, level of difficulty of starting new business or getting credit. All of these factors play an important role in foreign country expansion of any firm.

➤ ***Environmental factors***

This is the last part of the PESTLE framework and the main areas covered are especially environmental protection, energy consumption or pollution. Part of this analysis is also environmental restrictions, which could affect the business activity directly.

Overall, the PESTLE analysis provides a better starting position for the company on the market, if the organization takes this analysis into consideration. In case the organization fails to recognize these factors properly, their plan to operate on the foreign market can fail easily.

3.3.2 Porter's 5 forces analysis

Porter's 5 forces is another widely used framework, which is a helping tool to identify competitive forces on the market and the competitive environment of the company. Porter (2008) maintains that his analysis is crucial for business if it wants to develop itself and choose the right strategy for foreign expansion. It is considered to be a strategic forecast, which helps to determine whether the company can compete with the existing competition. The figure below illustrates the 5 forces, which together determine the nature of competition within an industry:

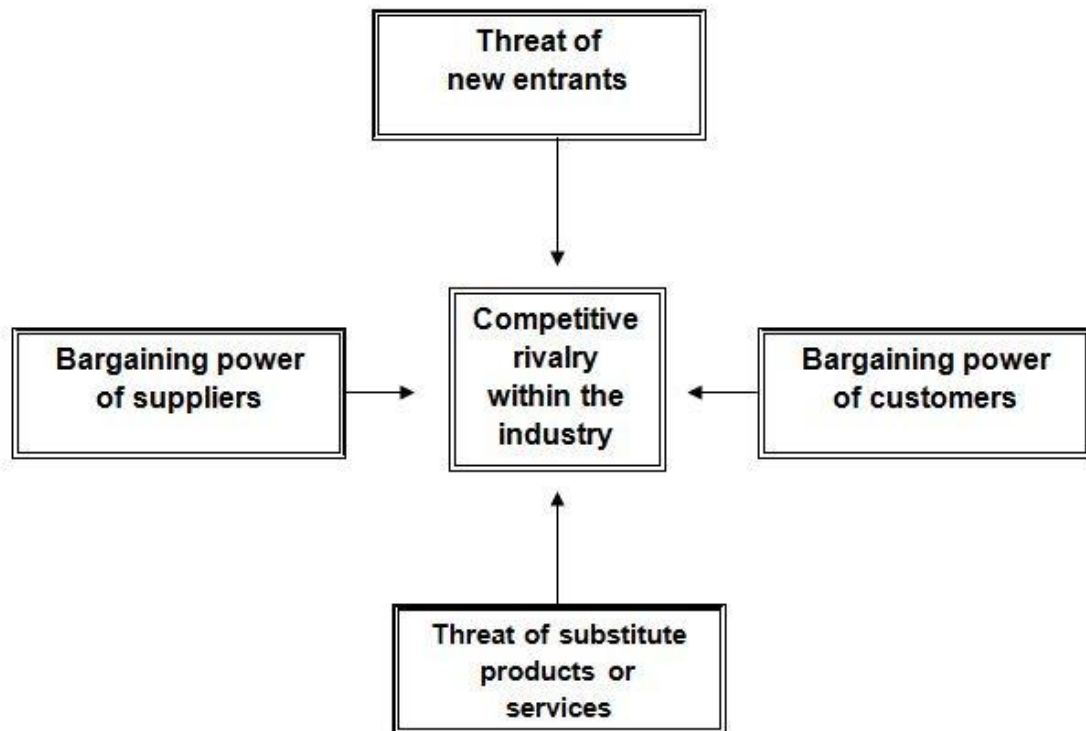


Figure 2: Porter's 5 forces (Porter, 2008)

3.3.2.1 Threat of new entrants

The threat of new entrants determines the possibility of new competitors entering the market. It is highly dependent on the barriers which are present in every market. If the barriers for entrance are low, then the threat of new entrants will be high and when the barriers are high, the threat of new entrants will be low. If the barriers are low, there is a high risk of new competitors gaining market share, thus the rivalry will intensify. According to Porter (2008), there are several factors which determine the possible threat: capital requirements of the entry, access to distribution channels or legislative intervention in the market. He also states it can be economies of scale or product differentiation as well as costs advantages.

3.3.2.2 Threat of substitutes

According to Porter (2008), substitute products have an influence on the profit of the company. They often come to the market unexpectedly. The substitute products are usually designed to satisfy the same customer needs as the original one, but its price or quality can significantly differ from the original. If there is a situation, where there are too many good substitutes of the original product, it will limit the price that could be charged for the original product and therefore it will reduce the profits. The threat depends upon several factors, mainly the willingness of the customers to switch from original product to a substitute, level of customer loyalty, switching costs or the extent to which the price of the substitute is able to match the original product. When there is a threat of existing substitute(s), the firm will have to improve their performance with original product, either by reducing the costs or adjusting the quality of it.

3.3.2.3 Threat of rivalry

The threat of rivalry factor identifies the threat of competitive rivalry on the market. If there is rivalry on the market, it most usually encourages companies to make competitive price reductions or investments in innovation and their products. Intensive promotion and spending on advertising is expected. All of these activities are increasing costs significantly and lowering profits. There are factors that determine the degree of the rivalry on the market, such as: number of competitors on the market specializing in the same field of business, the market size and its growth or exit barriers from the market (Porter, 2008).

3.3.2.4 Bargaining power of suppliers

According to Porter (2008), the suppliers are able to use their bargaining power by establishing higher prices or lowering the products and services quality. The suppliers can exercise their bargaining power mainly if the product offer is unique and if it doesn't have to fight against different products in the industry. Also if the supplier decided to force up the price paid for inputs, the profits of the company will be lower.

3.3.2.5 Bargaining power of customers

The power of customers is high, when they are able to pressure down the prices or if they are able to increase the required quality of the product for the same price, thus reducing the profits of the company. The bigger the power of customer is, the greater is the ability to depress the industry's profitability. According to Porter (2008), there are several determinants for powerful customer's power: number of customers (the smaller the number of customers, the bigger power), size of their orders, number of firms which are supplying the product, threat of integrating backwards (customers poses a threat of integrating backwards) and the cost of switching. According to Porter (2008), the power of customers (and buyers) is always directly influenced by the strategic choices of the firm.

3.4 Analysis of the company

The internal analysis of the company offers an insight into the background of the company, its product portfolio, financial information or historical development of the company as well as the future vision. For the management of the company, it is also necessary to identify company's strengths and weaknesses as well as potential threats or opportunities on the market. The overall evaluation of these factors, is called S.W.O.T. analysis.

3.4.1 S.W.O.T. analysis

The S.W.O.T. letters are acronym to strengths, weaknesses, opportunities and threats. According to Kotler (2006), the S.W.O.T. analysis is considered to be one of the most useful tools for understanding and evaluating situation of businesses. The analysis has its origins in research which was conducted at Stanford Research Institute between 1960 and 1970 and the founding father of the analysis is considered to be Albert S.

Humphrey. The main purpose of the analysis is to provide business with framework to review its strategy or their position on the market. The analysis is most often used in business planning, strategic planning, marketing, product development or in various research reports. Kotler (2006) maintains that S.W.O.T. analysis can be divided into two groups. The internal factors of the analysis, which are strengths and weaknesses and external factors, which include opportunities and threats for the company. This concept of the S.W.O.T. analysis is structured and presented as the 2x2 matrix, which is widely used in the modern business environment. The factors of internal origin are attributes of the organization and factors of external origin are attributes of the business environment. The S.W.O.T 2x2 matrix is shown in the figure below:



Figure 3: S.W.O.T. analysis matrix (Kotler, 2006)

3.4.1.1 Internal factors

➤ ***Strengths***

Among the strengths of the company we can include the internal company capabilities that can help the company in order to reach its business goals and which present competitive advantages. These capabilities can be for instance: unique selling points, financial health of the company, good reputation among customers, accreditations or certifications, know-how, experience, resources, assets, people etc.

➤ ***Weaknesses***

As weaknesses, we understand business's internal limitations which can influence the process of achieving goals and objectives of the company. The possible weaknesses are as follows: high costs structure, lack of competitive strength, bad reputation among customers, bad financial health of the company or gaps in capabilities. For a company, it is crucial for its further development, to identify these weaknesses and adjust their behavior accordingly.

3.4.1.2 External factors

➤ ***Opportunities***

A company can profit from successful identification of its opportunities, which are the external factors of the S.W.O.T. analysis. This factor can provide the company with the possibility to exploit and use their advantage against their competitors on the market. The opportunities can be for instance: vulnerability of competitors, technology innovation and development, niche target markets, global influences, emerging new markets, partnerships or major contracts or tenders. If the company seizes their opportunity, they can significantly increase their possible profits.

➤ ***Threats***

This factor has to be evaluated very carefully and conscientiously by the management of the company. This factor can challenge the company's performance and it has to be taken into consideration while doing business. The most common factors are: political, legislative or environmental effects on the company, business obstacles of any kind, financial or credit pressure, employment of the target market, low market demand or seasonality and weather effects which may influence the business.

To summarize, the S.W.O.T. analysis is an ultimate helpful tool for each company, if they want to identify their powerful and weak factors and they are willing to make adjustments in order to adapt to them.

3.4.2 Key success factors

In accordance with LaFuente (2013), every business has its own unique set of aspects, which are considered to be key success factors in comparison with their competition. Usually, there are not many key success factors for each business, it is rather a short list of key aspects of the business, which give them competitive advantage. The identified combination of important aspects is the key in order to accomplish one or more desired business goals and the key success factors tool is often used by management of the firm while making a decision whether to enter the foreign market or not.

3.4.3 Competitive advantage

The term competitive advantage can be defined as *“the ability gained through attributes and resources to perform at a higher level than others in the same industry or market”* (Porter, 1980).

For each business, it is important to acquire some kind of competitive advantage if they want to succeed in today's fast developing and escalating business environment. According to Porter (2008), there is a need to gain and develop certain attributes or their combination that allow the company to outperform their competition. This competitive advantage is often addressed as added value to the business. In the Porter's view, the company and its management has to be concerned with developing and sustaining their competitive advantage.

The competitive advantage can originate from several attributes. These attributes can be access to natural resources or access to trained, skilled and experienced human resources. The access to high end information technology can provide advantage as well. Competitive advantage can also be possession of trademark rights, patents or certificates.

Porter (2008) defines that there are two types of strategy for gaining competitive advantage in an organization: cost leadership and differentiation.

➤ ***Cost leadership strategy***

This strategy has a simple objective: to offer products or services at the lowest price possible to have lower prices than competition. However, it is necessary to still earn a suitable profit and maintain a certain level of quality of products rather than operating with loss. It is very aggressive strategy which requires additional adjustments, such as applying cost minimization in manufacturing and production areas.

➤ ***Differentiation***

This strategy involves a completely different approach. It required developing of unique products on the market, which are not yet offered by the competition. The goal of this strategy is to provide variety of products or services, which customers are not able to get anywhere else on the market. However, in accordance with Porter (2008), the product in question has to be valued by the customers on such level, that they buy it even if the price is higher. The customers must be ready to pay the price for better quality.

3.4.4 Cultural dimensions

In order to assess cultural dimensions, the Hofstede's cultural dimensions theory must be applied. The Hofstede's cultural dimensions theory is a framework, which is focused on cross-cultural communications. It was developed by Geert Hofstede in 1965 when he became the founder of the personnel research department of IBM Europe. This theory became one of the first theories, which could identify and explain differences between cultures.

The theory describes the relationship between society's culture and values of members of this culture and the connection to behavior. This theory is widely used in modern business field, particularly in psychology, international and strategic management and cross-cultural communication. The Hofstede's theory has inspired a lot of other major cultural studies and other researches on different aspects of culture, such as social beliefs (Hofstede, 2004).

The theory identifies several dimensions:

➤ ***Power distance index (PDI)***

The power distance index measures to what extent less powerful members of the organization or families accept unequal distribution of power in the society. In the cultures which have lower index, people often demand justification for differences in equalities of power. Cultures with higher index accept hierarchical order without the need of further justification.

➤ ***Individualism (IDV) vs. collectivism***

Individualism stands for preference of such social framework, where people are expected to take care of themselves. Conversely, inclining to collectivism represents that people expect to be taken care of by their families.

➤ ***Masculinity (MAS) vs. femininity***

These dimensions represent people's preference for achievement. For the masculine cultures, the main values are competitiveness, assertiveness, materialism and ambition for power. Conversely, a feminine culture has its core values in relationships and their quality of life.

➤ ***Uncertainty avoidance index (UAI)***

The uncertainty avoidance index shows how members of society are coping with anxiety, uncertainty and ambiguity. Generally, countries with higher scores in UAI believe in codes and they also plan their actions step by step and they respect rules and laws, as well as regulations. On the other hand, countries with low UAI got rather relaxed attitude toward regulations and principles.

➤ ***Long-term orientation (LTO) vs. short-term orientation***

This dimension is all about dealing with the challenges of the present and the future. Cultures that have low LTO index, incline more to traditions and established norms and they don't care about the future as much. The cultures with higher index are more pragmatic and they prepare for the future better. If we put this into the business context, these dimensions are related to normative versus pragmatic levels. Also sometimes in the academic environment, we can encounter terminology, such as monumentalism versus flexhumility.

➤ ***Indulgence vs. restraint (IVR)***

This dimension measures the levels of members of culture trying to control their desires or impulses. Indulgent societies incline to basic enjoying of life and having fun, whereas restrained societies are convinced that these needs have to be regulated and they respect strict social norms.

4 Current situation analysis

4.1 Overview of NAVERTICA, PLC.

In this chapter, the NAVERTICA company is briefly introduced and some basic characteristics and facts, both historical and up-to-date, are described.

4.1.1 Introduction of the company

NAVERTICA is headquartered in the Czech Republic with offices in Brno and Prague as well as in Bratislava, Slovakia. The company has been involved in the development and implementation of ERP systems since year 1990, when it was established. They specialize in a field of „information systems“, to be precise in delivering ERP (Enterprise Resource Planning) and CRM (Customer Relationship Management) solutions based on Microsoft Dynamics platform to their customers.

The NAVERTICA company is qualified as an Independent Software Vendor (ISV) and they also specialize in delivering of solutions such as intranet or customer portals which are all based on Microsoft SharePoint platform which is followed by providing customer and consultation services. These are provided in the integrated area management systems (ISO 9001, ISO 27001, ISO 14001, etc.) which is considered to be an essential step in the process of delivering of a complex ERP or SW system (NAVERTICA Annual Report, 2013).

4.1.2 History of the company

NAVERTICA has been operating on both Czech and Slovakian markets since 1990, initially known as FUTURE Engineering. The company started its business in distribution of computer components. The main headquarters of the company has always been in Brno since the very beginning.

In 1991, the company expanded their product portfolio by adding a new product – industrial automatization followed in 1992 by adding another product – ERP system Navision. In the following years the company continued to grow and expand their activities and they started to focus on implementation and support of ERP systems and additional add-ons to these systems of industrial automatization.

In 1998, NAVERTICA was certified for system ISO 9001, which is a quality system of standards applied in order to maintain a certain quality level in service and manufacturing industries (ISO, 2014). During the following years, NAVERTICA focused on their own activities on the system management market.

In 2002, the company started its first international projects and the company continued to grow. In 2007, the firm's product portfolio was restructualised with the focus on specialized segments of the market, so called „vertical solutions“. In the following year, 2008, the company was renamed to NAVERTICA.

The company now has 60 employees, mostly situated in Brno HQ (NAVERTICA Annual Report, 2013).

4.1.3 Product portfolio

The primary product of the company is information system Microsoft Dynamics NAV from the Microsoft company. NAVERTICA has been certified as *Microsoft Gold Certified Partner* since 2003 and in years 2008, 2010 and 2012 the company was awarded and selected to be a member of prestigious Microsoft President's Club.

NAVERTICA's product portfolio consists of:

- ERP systems based on Microsoft Dynamics NAV platform
- ERP systems based on Microsoft Dynamics AX platform
- Industrial automatization
- CRM systems based on Microsoft Dynamics CRM platform
- Portals and Documents management systems (DMS) based on Microsoft SharePoint platform

- Integrated management systems (ISO 9001, ISO 14001, ISO 27001, ISO 20000, etc.

These systems mentioned above are supplied by NAVERTICA as SW solutions to NAVERTICA's customers, who are mostly small to mid-sized companies with usually no more than 1000 employees (not a condition). These products are mainly designed in order to deliver solutions for more effective management, monitoring and evaluation of business processes (NAVERTICA, 2014).

4.1.4 Target segments

NAVERTICA has been developing and inventing custom solutions to satisfy individual needs of their customers for many years and the outcome of this „cooperation“ is that NAVERTICA has acquired a lot of know-how and is able to apply it to their vertical solutions. They focus on multiple segments, however according to NAVERTICA Annual Report (2013), these are the main areas of realization:

- Service management
- Property management
- Rental and leasing management
- Health care
- Retail optical
- Manufacturing
- Engineering
- Printing industry
- Steel service and processing

4.1.5 Financial situation of the company

The financial data for this chapter are obtained from the portal www.justice.cz and from NAVERTICA's Annual Report 2013.

NAVERTICA has quite big registered capital, which is over 13 milion CZK.

One of the leading indicating factors for determining the financial situation of a company, is the consolidated profit and loss result. The consolidated profit and loss result of NAVERTICA has a growing tendency, except for year 2009, when the company was affected by the global financial crisis, which was affecting all economies all around the world at that time. In accordance with NAVERTICA's profit and loss account statement for 2013, the consolidated profit and loss result for 2013 was 16 million CZK.

The revenues of the company are mostly from services and products (85%) and the level of revenues for 2013 reached 70 million CZK, where services were 63 million CZK and products were 7 million CZK.

When we examine expenses of the company, we can see that biggest expenses are exercised on wages.

In accordance with these data, NAVERTICA company is considered to be financially healthy company with good perspectives for the future.

4.1.6 Vision of the company

The long-term vision of NAVERTICA company is to successfully start their business operation in South Africa and acquire long-term clients there as well as maintain their offices in Bratislava and Prague. Possible new subsidiary could be established in Wien, Austria in near future as well. Customer satisfaction is their most important goal to achieve together with improving quality of their services and products as well as adding new possibilities to their product portfolio. NAVERTICA has been among the TOP 3 Microsoft partners in Czech Republic and they intend to keep this status. Overall, NAVERTICA would like to maintain their quality standards and expand to foreign markets even more (NAVERTICA Annual Report, 2013).

4.1.7 Key success factors of NAVERTICA

In this subchapter, the key success factors of NAVERTICA are identified by the author:

- Acquired know-how in the field of information systems (experience)
- Company's strong and solid background in Czech Republic
- Good financial health
- Specially crafted vertical solutions
- Fast project response – fast implementation
- Experience with international projects
- Product knowledge
- Precise methodology

4.2 IT Industry analysis

The information technology industry in South Africa is a very fast growing market with countless possibilities. The spending in IT sector in South Africa is mainly driven by the government and large enterprises. In addition, it is also driven by the growing interest in IT solutions (such as NAVERTICA specializes in) among small and medium-sized enterprises (SMEs), which are often seeking to explore new possibilities in sales and marketing channels together with improvement of their financial and operational efficiencies. Over the last couple of years, the SMEs have significantly increased their spending on IT systems mainly by upgrading their PCs and servers together with information systems while they are also inclining to adopt enterprise applications and cloud-based solutions, which seems to be the latest trend there days.

This ongoing trend creates enormous growth opportunities for IT products and services considering the potential of South Africa's SME sector. The South African IT services sector is expected to record very strong growth over the forecast period to 2018 together with IT software sector, which is mainly benefitting from implementation of IT

solutions in the businesses together with cloud-based solutions. The forecast is expecting continued government and enterprise patronage over the sector in order to sustain the growth, as it was during last years.

4.2.1 Headline projections

The IT industry headline projections for 2014 are as follows (in accordance with South Africa IT Report, 2014):

- The fundamental part of the IT industry is computer hardware sales and projections for computer hardware sales are expected to rise up to 5.6 percent, from ZAR 36.30bn in 2013 to ZAR 38.34bn in the end of 2014. However, the growth is expected to be affected by declining demand for PCs and laptops and thanks to the weak local currency. The demand is rising for substitutes, such as tablets.
- The sales in IT software are projected to rise up to 7 percent with the increase from ZAR 22.63 bln. in 2013 to ZAR 24.21 bln. in 2014. The biggest uptake in this sector should be cloud-based software, which is less susceptible to piracy and this will drive the growth in software sales.
- The IT services sales are to be expected to rise up by 8.4 percent, which is very positive development for this particular sector. The market is supposed to grow from ZAR 35.36 bln. in 2013 to ZAR 38.34 bln. towards the end of 2014. These numbers are very attractive for NAVERTICA because its business strictly falls into this sector. Cloud computing, information systems implementations and business process outsourcing (BPO) services are expected to be the main leading indicators of the growth in this area.

4.2.2 Risk and reward ratings

- In accordance with South Africa IT Report, South Africa is ranked in 6th position with the aggregate score of 55.1 out of 100 points possible. This result is unchanged in the first quarter in 2014 and is slightly higher than the regional average of 54 points. The best score for South Africa is in the industry rewards category, which is reflecting the actual size of the South African IT market in comparison to other countries in the region. Overall, the score is satisfactory for business purposes.

4.2.3 Trends and developments

- The most dominant trend in South Africa's IT market since 2013 is arguably consolidation. This trend is expected to continue in 2014 with seeing a considerable number of mergers and acquisitions developments. The most notable of these developments is Telkom South Africa bidding to buy IT services firm Business Connexion (BCX) for USD 250 million. This trend is expected to continue with the largest country's telecoms operators trying to venture into the IT space and develop convergence services. In addition to this, it is highly expected from the IT information systems providers to explore consolidation opportunities in order to build bigger scale and acquire possible new capabilities in the business.
- If we take a look at development in PC's and services connected with them, the most remarkable is the fact, that Dell and Lenovo have launched their respective vendor financing solutions in South Africa. Their view is to boost the sale of their PCs and other computer hardware as well as penetrating the lucrative SME market. The Dell Financing Solution (DFS) is a recent scheme launched for SMEs in South Africa in June 2014. The introduction of this system solution indicates that there is a gap in the market that both Dell and Lenovo are ready to

fill. There is a high expectation from major vendors to introduce similar programs for South Africa in the near future.

4.2.4 Main competitors on the South African market

Because the market with IT systems is a very competitive environment in South Africa, it is crucial for the analysis to identify the main competitors of NAVERTICA in the respected field of business. However, in comparison with the existing competition on the Czech market, the situation in South Africa is less threatening. It is common in Czech Republic, that for every available public selection procedure from a potential customer, or public or government tender, there is at least ten competitors willing to acquire the desired contract, thus the competition is very strong and fierce. In this chapter, the main competitors on the South African market are identified and briefly described by the author:

4.2.4.1 ASTRAL

The company ASTRAL is one of oldest and biggest players on the IT systems market in South Africa. As a matter of fact, ASTRAL became the first company which was certified as Navision partner in South Africa in 1998. The company is currently celebrating an industry leading performance.

The company has received all essential Navision training and certificates in Johannesburg from Navision experts from Denmark and in 1999, the company did their first step in implementing their first Navision in South Africa. Since then, they have been recognized as the first South African certified Navision partner.

The biggest successful acquisition of an outsourcing contract with the local subsidiary was Adidas, where ASTRAL managed their IT management services, network support as well as Microsoft and Navision support.

In 2002, Microsoft purchased Navision which then became known as Microsoft Dynamics NAV and ASTRAL became Microsoft partner. Today, ASTRAL is leading the Microsoft Dynamics NAV market in South Africa.

ASTRAL focuses on following segments of implementation in CRM: Financial management, distribution, human resources management, project management, customer relationship management, analytics, e-commerce and customization tools.

ASTRAL also focuses on ERP systems implementation, both domestic and international, to be precise: macro ERP software (locally developed software), Siemens Comet ERP, Sage Tetra ERP and of course Microsoft Dynamics NAV.

ASTRAL has developed and implemented their CRM and ERP solutions in more than 80 different organizations and it is a force to be reckon with on South African market (ASTRAL, 2014).

4.2.4.2 Just Dynamics Software Solutions, LTD.

Just Dynamics is a major player on the South African market. They are constantly trying to deliver innovative business IT solutions among their clients using Microsoft technology. Just Dynamics is a Microsoft Gold Certified Partner (same as NAVERTICA), that has been providing their solutions across various industries since 1987.

In 1998, the Navision platform was introduced to the business and as a result Just Dynamics became one of the first resellers of Navision in South Africa. In the same year, Just Dynamics became a part of Universal Computer Services and together with Accsys, they formed UCS Group. Together, they were awarded the Microsoft Business Solution Center of the Year award for many years.

The USC Dynamics was established in July 2009 as a standalone company within the Investments Division of UCS Group LTD and they started crafting their solutions with dedicated focus on Microsoft Dynamics platform.

They focus on establishing international relationships with multiple Independent Software Vendor (ISV) Partners and they are constantly introducing their products in manufacturing, services, retail and distribution sectors.

USC Dynamics was renamed to Just Dynamics in 2011 and they have an indispensable part of the market share in IT systems solutions market in South Africa (Just Dynamics, 2014).

4.2.4.3 Liquid CRM

Another major player on the market is Liquid CRM, which has been focusing mainly on Microsoft Dynamics CRM platform implementation in South Africa since 2004. Although their focus is also in financial and professional service industries, their CRM expertise extends into retail, non-profit sector, media, telecommunications, pharmaceuticals, IT services, shipping or education.

Liquid CRM have successfully implemented more than 130 CRM projects, which were ranging from 3 to 3000 users. Their Microsoft Dynamics CRM services include: installation, configuration, data migration, customization, change management, report writing or CRM coaching and consultancy. Their field of know how is then pretty vast and the company has acquired and satisfied a lot of customers during its not so long existence.

One of the benefits they offer is that they provide Microsoft Dynamics CRM on premise or cloud hosted solutions and they also use the Microsoft Dynamics CRM platform for xRM (anything Relationship Management). Also their implementation methodology is based on very advanced and modern Microsoft's best practice, SureStep. This is the biggest competitive advantage for the company (Liquid CRM, 2014).

There is another significant competition on the South African market that is worth mentioning, those being **Odyssey CRM Software**, **Bluwave Software** or **VTiger CRM South Africa** (Business Monitor International, 2014)

4.2.5 Competitive advantage of NAVERTICA

In the following chapter, the main areas of competitive advantages of NAVERTICA are analyzed:

4.2.5.1 Vertical specialization

NAVERTICA started developing their vertical solutions 5 years ago, when there was a high demand from their customers for customized and specialized solutions. The vertical solution means that the product which is being invented is formed exactly on those areas where it is needed and it is not covering unnecessary areas. Advantages of this approach are faster implementation of the product as well as gaining experience in those particular sectors, thus increasing the quality of the solutions provided by NAVERTICA.

The vertical solutions are primary implemented in a segment of Microsoft Dynamics NAV and within this scope, NAVERTICA has created or adapted number of solutions which give NAVERTICA competitive advantage over their rivals. Among those solutions are:

➤ *PrintVis*

It is a comprehensive ERP/MIS solution from Danish NovaVision for printing industry and as mentioned above, it is built on Microsoft Dynamics NAV platform. It is very advanced system which focuses on advanced needs for all the tasks and processes in the administration and production of prepress, press and post press. It is also very modular, which means that it can be adapted to customer's needs. It covers the whole process of production, from first quote to printing and delivering to the end user. It is designed to satisfy any customer in the printing industry. The biggest customer of NAVERTICA in this field is KONICA MINOLTA. The acquired know-how from this contract is very valuable for NAVERTICA and it gives them significant advantage among their

competition. Thanks to this cooperation, another unique vertical solution was developed, but this is to be described below. Moreover, NAVERTICA has been an exclusive partner of this system in Czech Republic and thus they can bring their knowledge and experience into the South African market (NAVERTICA, 2014).

➤ ***CENIUM Hospitality***

This is a highly specialized solution for hotel chains, originally developed by American company CENIUM. It has been successfully proven by big hotel chains all around the world in Norway, Sweden, Denmark, Iceland and USA. This solution provides information system with a single database and standardized user interface, which is very user friendly. It consists of modules that work together as a software management information suite. It is also optimized for Microsoft Dynamics NAV platform and it provides one step business solution. It covers hospitality front office together with accounting back office, all based on one infrastructure, the SQL server. The modules of the system can be used separately and all operational data are integrated. The flow of information in the system allows simultaneous access by all users in real time through a common visual work environment. This software solution has been exclusively localized to Czech language by NAVERTICA and is offered both in Czech and English version to the end-users (CENIUM, 2014).

➤ ***NAVERTICA Steel Service Center***

The NAVERTICA Steel processing vertical solution is mainly intended for such customers, which are specializing in slitting, leveling or pressing of steel. The key functionalities of this solution are allocations (such as cutting plan design, slitting tree design or machine center specification), batch tracking (system used to file parameters specifying batches and item entries), analysis, planning, calculation, production and quality tracking together with parameter setup. Other features of the system are for example work flow management, document

management or Just-In-Time process management. This solution has been developed together with UK partner company and is mainly used in automotive industry. NAVERTICA localized this solution to Czech language and their last implementation of the system was in United Arab Emirates (NAVERTICA, 2014).

➤ ***NAVERTICA Healthcare***

This is unique solution created in cooperation with Czech and Slovak partners. It is currently being localized to English language by NAVERTICA to be able to satisfy potential customers in South Africa. It's a complex vertical solution called Integrated Hospital Management System (IHMS) and it is designed for hospitals, polyclinics and rehabilitation centers. The system is able to cover finance management, processing of clinical or laboratory information, invoicing as well as economical services and information security. This complex system uses unified user environment on one database (Microsoft SQL) and it measures processes results in accordance with the quality management norms ISO 9001 and ISO 27001 (NAVERTICA, 2014).

➤ ***NAVERTICA NESS***

This solution has been developed together with KONICA MINOLTA, as mentioned above. It is a registered add-on to Microsoft Dynamics NAV platform which is mainly intended for companies with demanding needs in the area of complex services, such as sale of equipment (e.g. copy machines). The key processes which are covered by the system are provision services, invoicing, warehousing, EDI communication, finance management or purchase and sales. This system is localized in many languages and is suitable for companies of any size (NAVERTICA, 2014).

To summarize, these vertical solutions NAVERTICA is offering, are the very foundation of their success. Even the name of the company comes from the connection of two words: Navision and vertical. There are several other vertical products crafted by NAVERTICA, such as NAVERTICA MUNICIPAL, which is focusing on government; NAVERTICA Car Dealership or NAVERTICA Mechanical Engineering Solution. These products naturally give NAVERTICA huge advantage among their competition. Those mainly being:

- Smaller error rate due to the frequent implementation
- Less time frame needed for implementation due to the experience
- Better functionality of the solutions due to longer and thorough developing process
- Better quality of customer support services due to experienced staff of NAVERTICA (result of focusing on problem solution in the same areas over and over again)

4.2.5.2 Multilingual staff

The ability to localize products into desired language is a huge advantage for NAVERTICA. Its employees have been dealing with large number of international implementations in foreign projects. Due to the pressure of the management of NAVERTICA on their employees to have the best possible level of knowledge of foreign languages possible (language courses are mandatory for everyone and paid by the company), the level of their language knowledge is on a very high level, which will most definitely prove as very useful in South Africa. This has already proved being a huge advantage many times, especially while implementing products in countries very distant from Czech Republic. A good example is recent successful implementation in United Arab Emirates. Advantages are obvious, however the disadvantage is logically higher expenses on employee language education.

4.2.5.3 Know-How

NAVERTICA has been focusing on IT systems from almost the very beginning of its establishment. The level of know-how which was acquired by its employees during that time is very high in comparison with other, usually younger companies in the same field of business. During the last 20 years, the expertise of employees have reached very high level. This brings huge advantage not only for new customers, but for newly hired employees as well, because the know-how is exchanged inside of the company in very effective way, by training and seminars delivered by NAVERTICA's most experienced "veterans" (NAVERTICA Annual Report 2013)

4.3 PESTLE analysis – South Africa

The following extensive PESTLE analysis conducted by the author audits the current external environment in South Africa and therefore helps to provide essential and very valuable information for NAVERTICA company in order to be able to assess potential changes in the business environment and to help the company to acquire better starting position among their competitors thanks to business environmental awareness.

4.3.1 Political factors

➤ *The political stability index*

In South Africa it is one of the biggest issues NAVERTICA has to face while entering the South African market. South Africa is ranked among the highest in the world. According to Transparency International (2014), South Africa is the 25th highest ranked country with the political stability index (PSI) of 7.0 for 2013. This means that South Africa is politically very unstable, as the highest possible (and the worst) score is 8.8 in Zimbabwe, their neighbor. Despite this, the political instability in South Africa is a long time known fact and whoever

wants to set up a business there must take this into account and be prepared for possible difficulties connected to this issue.

➤ ***The peace index***

South Africa is ranked as the 122nd out of 162 countries worldwide with the score of 2.364 in Global Peace Index (GPI). The major factors, which are influencing this index the most, are militarisation, domestic and international conflicts and society and security perception (Vision of Humanity, 2014). (See Figure 4)



Figure 4: Global Peace Index (Vision of Humanity, 2014)

➤ ***The global terrorism index***

The global terrorism index in the country is 1.05, which ranks South Africa as 111th out of 159 countries. This means that the threat of imminent terrorist attack is very unlikely in this country (Vision of Humanity, 2014).

➤ **Corruption**

High corruption rate often leads to unethical business practices. South Africa scored 42 points in the 2013 Corruption Perceptions Index (CPI) done by Transparency International. The result is one point lower than in 2012 and it places South Africa on the 72nd position worldwide (See Table 1). This result is not that alarming if taken into consideration that Czech republic scored almost the same (48 points). If we look at the Global Corruption Barometer for 2013 made by Transparency International, we can see that almost 45% of South African population thinks that the government's effort to fight corruption is effective, whereas 45% thinks that it is ineffective. The other 10% of population feel that their government is neither effective nor ineffective. Nevertheless, the percentage of people who feel that the level of corruption during the last 5 years has increased, is 62%. 24% of people feel that it has decreased and the rest 14% thinks it is the same (Transparency International, 2014).

RANK	COUNTRY	SCORE	SURVEYS USED	CI: LOWER	CI: UPPER	2012 SCORE
57	Czech Republic	48	10	43	53	49
57	Croatia	48	9	43	53	46
57	Namibia	48	6	42	54	48
57	Bahrain	48	5	39	57	51
61	Oman	47	5	34	60	47
61	Slovakia	47	8	39	55	46
63	Ghana	46	9	41	51	45
63	Cuba	46	4	39	53	48
63	Saudi Arabia	46	5	35	57	44
66	Jordan	45	7	41	49	48
67	Macedonia FYR	44	6	36	52	43
67	Montenegro	44	4	40	48	41
69	Romania	43	9	38	48	44
69	Italy	43	7	39	47	42
69	Kuwait	43	5	37	49	44
72	Brazil	42	8	36	48	43
72	South Africa	42	9	37	47	43

Table 1: Corruption Perception Index 2013 (Transparency International, 2014)

➤ **The apartheid impacts**

Across the whole South Africa, the apartheid impacts are still felt by everyone. The South African government had to face several major issues after ending of apartheid back in 1994, those being mainly uneven distribution of wealth across

the black population of the country, under-educated black population with low to none professional qualification, excrescent growth of criminality connected with extreme poverty or undeveloped health, educational and safety infrastructure. The positive information for new businesses is that the government in South Africa has managed to control these problems and lower them after several electoral terms. This was caused mainly by generous funding politics and huge amount of mineral resources. Others were controlled by radical political decisions, such as Black Economic Empowerment (BEE), which has been validated by the South African government in 2003. This rather controversial bill was launched in order to redress the inequalities of apartheid. It gives economic privileges to the certain disadvantaged ethnical groups, such as Blacks, Indians or Chinese, which were not previously available to them. It also commands the business owners in South Africa to employ Black employees and for some even to employ them in higher management. The employer is also bound to provide skills development, management or socioeconomic development trainings (Collins, Ntim, 2013).

➤ ***The current government***

The current leader of South Africa is Jacob Zuma, who has been elected in May 2009. The president is both chief of state and head of the government. The president is always elected by the National Assembly for a 5 year term (two terms are maximum) and the last election was held on 21st May 2014. Jacob Zuma was re-elected unopposed. The political party which is dominating, is Zuma's African National Congress (ANC), which is focusing on pro-Black politics. The ANC has been the leader of the political scene for many years and the political scene has been stagnating due to this fact. This continuous trend does not seem to change in near future (CIA, 2014).

➤ ***Potential political overturn***

It is very important for South Africa not to follow their neighbor, Zimbabwe, where the revolution completely changed the “face” of the country. Due to the

economic and social differences, the Black population took over the country and seized other people's (non-Black citizens) assets and property and forced them to leave the country. Zimbabwe then became one of the poorest countries in the world. The issue here is that the current SA's representatives are slightly inclining to this measure. Although this is very unlikely to happen in SA, this risk needs to be taken into consideration while setting up a business in SA. As mentioned above, SA is not exactly what one might call "a stable country". Notwithstanding this fact, there are several endeavors from the South African government to make business more accessible for new entrants, primary due to the high number of unemployed skilled personnel. These pursuits lead to increased number of small and mid-size businesses set up in the country (Collins, Ntim, 2013).

4.3.2 Economical factors

South Africa has an emerging market with mid-income and is the biggest economy in Africa with plenty of natural resources available. The largest sector of the economy is services, which is almost 73 percent of the GDP. The financial and business services account together for 21.2 percent of the GDP, government services 13.6 percent of the GDP, wholesale, retail and motor trade accounts for 12.5 percent of the GDP and transportation, storage and communication equals to 9 percent of the GDP. Moreover, the manufacturing has 15.3 percent of the GDP and mining, quarrying and agriculture are together 7.3 percent of the GDP. Also South African stock exchange is ranked as the 16th largest stock exchange in the world. As well as most of the countries in the world, South Africa was affected by the global financial crisis, which resulted in reduced prices of commodities and lower world demand of their exports. South African GDP fell dramatically in 2009, but managed to get back on track with projections of 2 percent growth in 2014. The biggest challenge South Africa is facing concerning economical

sector, is their unemployment rate as well as poverty, which is among the highest in the world right now.

In order to answer to alarming 25 percent of unemployed work force (almost 65 percent for young people between 15 and 34 years of age), the biggest state-run power company ESKOM, has decided to build two new power stations in South Africa together with introduction of new power demand management programs in order to lower this alarming unemployment.

The South African government's policy for economics is focusing on the inflation control, nevertheless the country has huge deficits in their budgets and this issue is restricting the ability to be able to deal with the imminent economic problems. Moreover, the president's government is now facing pressure from several interest groups who try to force him to use enterprises which are state-owned in order to deliver services to their low-income areas and to be able to slowly increase job growth and decrease the overall unemployment rate (CIA, 2014).

➤ ***Gross Domestic Product***

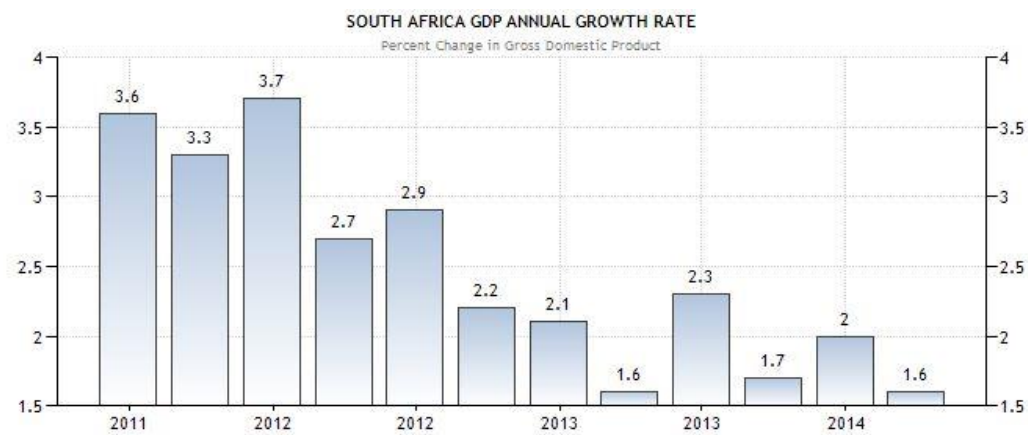
The latest data show that Gross Domestic Product (GDP) of South Africa was 350.63 USD bln. in January 2014. The value of GDP of South Africa is equal to 0.57 percent of the world economy. In the long-term history overview, the GDP of South Africa averaged at 116.62 USD bln. between 1960 and 2013. The GDP reached its maximum and all time high in 2011 at 403.89 USD bln., whereas the record low was recorded in 1960 with only 7.36 USD bln. (World Bank Group, 2014).



Graph 1: GDP of South Africa (Trading Economics, 2014)

➤ **GDP Annual Growth Rate**

The GDP in South Africa has expanded in the first quarter of 2014 in comparison with the same quarter in 2013 by 1.60 percent. During years 1994 till 2014, the average GDP Annual Growth Rate was 3.17 percent. The all time high was reached in 2006 with 7.10 percent and a record low of -2.70 percent in 2009 (Statistics South Africa, 2014).



Graph 2: GDP Annual Growth Rate (Trading Economics, 2014)

➤ ***GDP Per Capita***

The GDP Per Capita in South Africa is equal to 48 percent of the world's average. The last recorded figure was in the end of year 2013 at 5916.46 USD. Between the years 1960 and 2013, the GDP Per Capita averaged at 4852.30 USD with all time high at 5916.46 USD in 2013 and all time low at 3394.93 USD in 1960 (World Bank Group, 2014).



Graph 3: GDP Per Capita (Trading Economics, 2014)

➤ ***GDP Per Capita Purchasing Power Parity (PPP)***

This factor is increasing the attractiveness for potential business owners wanting to enter the country. It is essential to know the purchasing power of future customers. The last recorded GDP Per Capita PPP was recorded in 2012 at 10959.74 USD. This amount is equivalent to 50% of the world's average. Throughout the records between 1980 and 2012, it has averaged at 6793.58 USD with reaching the maximum of 10959.74 USD in 2012 and the minimum in 1980 at 4183.73 USD (World Bank Group, 2014).



Graph 4: GDP Per Capita PPP (Trading Economics, 2014)

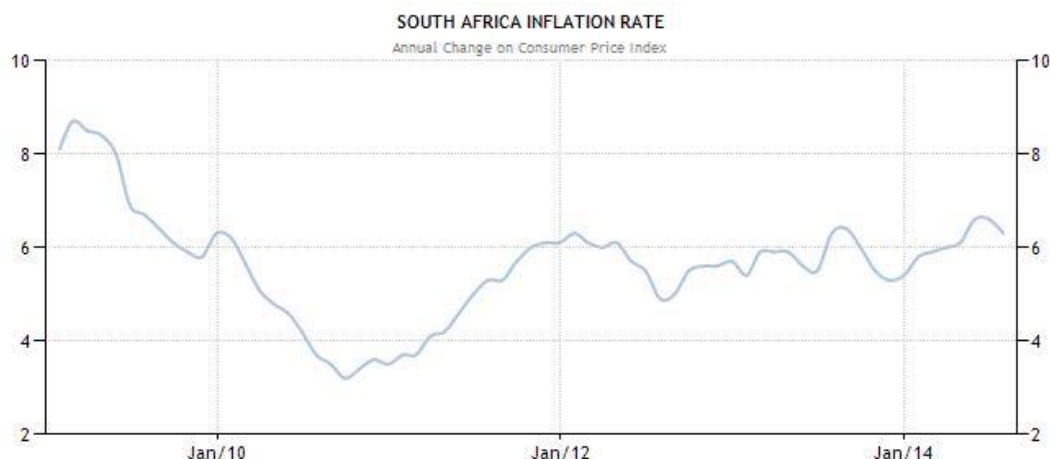
➤ **Corporate tax rate**

The corporate tax rate in South Africa has very attractive development for businesses. The tax is collected from companies and its amount is based on the net income of the company during one business year. The revenues from the corporate tax are very important for government, as it provides needed source of income for South Africa. The actual corporate tax rate in South Africa is at 28 percent. This is actually the record low tax in South Africa measured in 2013. The all time high tax was measured in 2007 with 36.89 percent. Corporate tax rate in South Africa has averaged at 33.61 percent between 2006 and 2014 (Trading Economics, 2014).

➤ **Inflation**

The inflation is fundamental factor for the economy. South African annual inflation rate recorded slowing for the first time during last 8 months. It went down to 6.3 percent in July 2014 from 6.6 percent during June and May 2014. This was mainly caused by lower transport and food costs. The services and miscellaneous goods sector index, which is concerning NAVERTICA, increased by 0.4 percent between June 2014 and July 2014. The annual rate increased to 7.1 percent in July 2014 in comparison with 6.9 percent in June 2014. This ascendant trend is most likely to continue in the future as well.

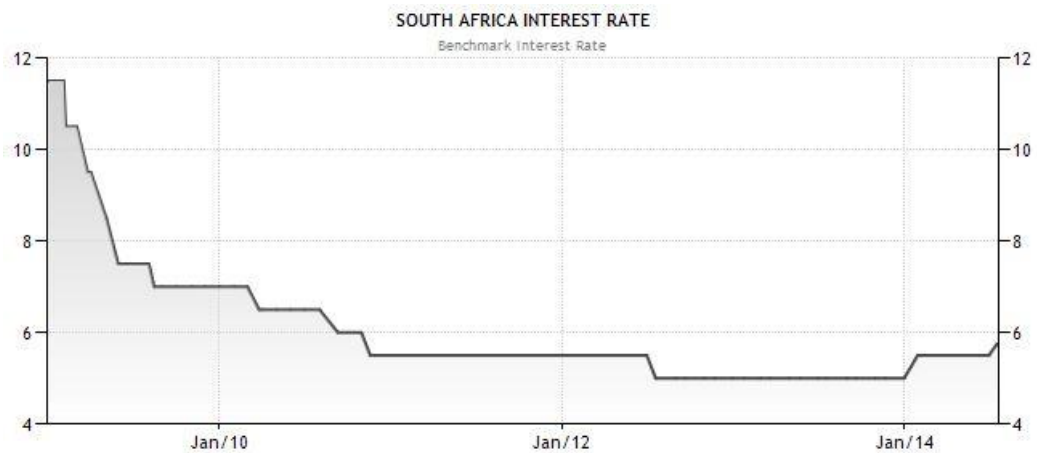
As mentioned above, the inflation rate in South Africa was recorded at 6.3 percent in July 2014 and it averaged at 9.44 percent between years 1968 and 2014 reaching all time high of 20.90 percent in 1986 and the lowest point was recorded in 2004 at 0.2 percent (Statistics South Africa, 2014).



Graph 5: Inflation rate (*Trading Economics, 2014*)

➤ **Interest rate**

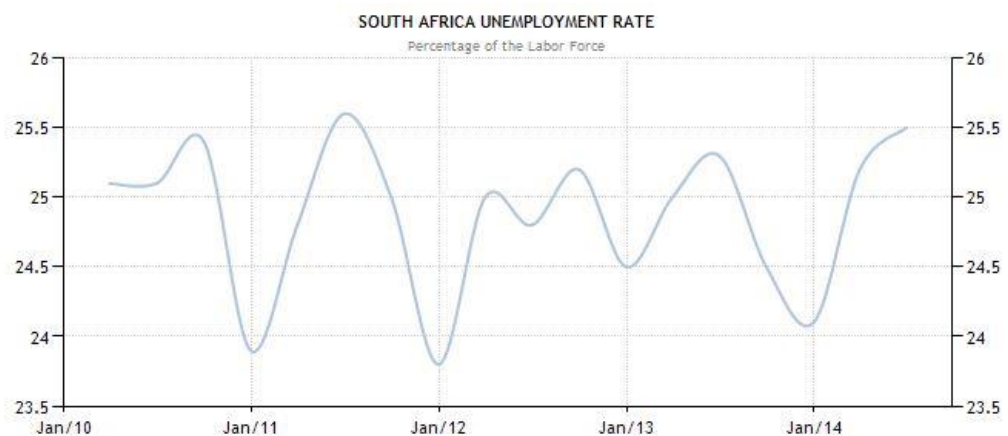
As of July 2014, the South African Reserve Bank decided to raise the interest rate to 5.75 percent due to the breach of inflation of the upper end of target range. This decision was taken by the South African Reserve Bank's Monetary Policy Committee (MPC). The interest rate in South Africa averaged at 13.17 percent from 1998 until 2014. It reached its maximum all time high in 1998 at 23.99 percent and maximum low in 2012 where it was recorded at 5 percent (South African Reserve Bank, 2014).



Graph 6: Interest rate development (Trading Economics, 2014)

➤ **Unemployment rate**

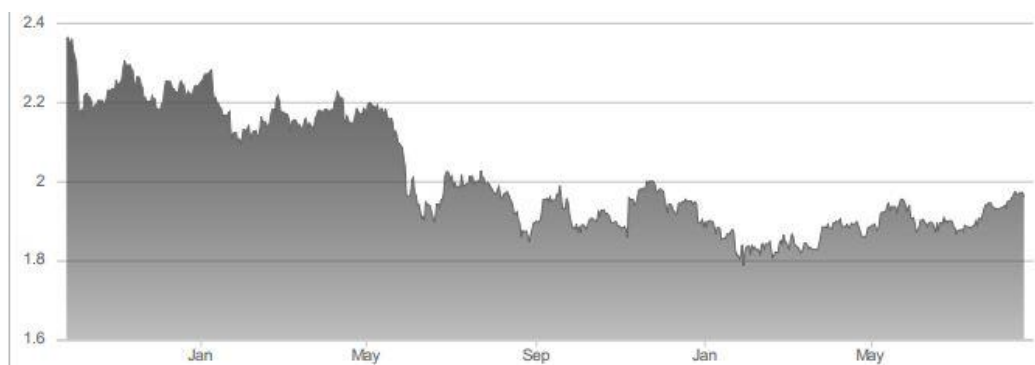
The South African unemployment rate increased to 25.5 percent during April, May and June 2014. By that, it reached the highest level since year 2008. The number of unemployed persons is 5.2 million. If we compare these numbers to previous year, the overall number of jobless people was increased by 182 000 in the second quarter of 2014. This is mainly caused by the job losses in agriculture, trade and transport. Between the years 2000 and 2014, the unemployment rate averaged at 25.27 percent, where the all time high was 31.2 percent in 2003 and the historical low in 2008 with 21.5 percent (Statistics South Africa, 2014).



Graph 7: Unemployment rate development (Trading Economics, 2014)

➤ ***Exchange rate risk***

The exchange rate between CZK and ZAR is 1.969 as of 21st August 2014 (ČNB, 2014). There has been declining trend in the exchange rate between CZK and ZAR during the last two years. The exchange risk could be a problem for NAVERTICA while doing transactions between the headquarters in Brno and the subsidiary in South Africa. For the development of the exchange rate, please see the graph below.



Graph 8: *The development of exchange rate between CZK and ZAR over last two years (Foreign Exchange UK, 2014)*

4.3.3 Social factors

➤ ***Language***

In terms of official languages, South Africa is very diverse and could be little bit confusing, due to its almost 50 million population (48,375,645). There are 11 official languages, those being IsiZulu (22.7%), IsiXhosa (16%), Afrikaans (13.5%), English (9.6%), Sepedi (9.1%), Setswana (8%), Sesotho (7.6%), Xitsonga (4.5%), siSwati (2.5%), Tshivenda (2.4%) and isiNdebele with 2.1%. The positive fact for NAVERTICA is that Johannesburg is the trade and cultural hub of the whole South Africa and the language spoken here is mainly English (CIA, 2014).

➤ ***Racism***

This has been substantive issue in South Africa and the problem is connected to business in lot of aspects. It is natural for the Black community in South Africa not to be in favor of the growing white population. Unfortunately, it is a result of decades of tyranny from the white population in the past. The government in South Africa has been trying to fix this by implementing several regulations, such as the Black Economic Empowerment (BEE), which was already described by the author in chapter 3.2.1. Even after all these years, this is still a very sensitive topic in South Africa and members of the Black community might still have problems while interacting with white community. However, this can be easily avoided by following the BEE protocol by employing black employees. (Slabbert, 2001).

➤ ***Criminality***

This is the essential part of the social environment in South Africa. The criminality there has its roots in the 90's, when the apartheid was ended. The population from the outskirts and countryside was urged and tempted by Nelson Mandela to move to big cities. This resulted in creating enormous amount of slums, which raised the level of criminality to its maximum possible and hardly bearable level. To put this into exact figures, the worst situation was in 1995, where the number of murders on 100 000 citizens reached 67. Since then, the number is declining. This is mainly caused by the measures which have been applied by the South African government. The government has invested enormously in the policing environment. The total personnel strength is 197 946 with a comparative police vs. population ratio of 1:336. This might seem low, but in South Africa, it is a pretty big accomplishment. Over the last 9 years the crime continues to decline against the increase in South African population figures. For detailed crime reduction statistics, please see the table below:

Contact crime

- Reduced by 38.2% over 9 years (2004/5-2012/13)
- Reduced by 16.0% during the past 4 years (2009/10-2012/13)
- **Reduced by 4.2% during the past financial year (2012/13)**

Contact-related crime

- Reduced by 32.4% over 9 years (2004/5-2012/13)
- Reduced by 16.1% during the past 4 years (2009/10-2012/13)
- **Reduced by 4.3% during the past financial year (2012/13)**

Property-related crime

- Reduced by 24.8% over 9 years (2004/5-2012/13)
- Reduced by 1.4% during the past 4 years (2009/10-2012/13)
- **Increased by 1.7% during the past financial year (2012/13)**

Other serious crime

- Reduced by 36.5% over 9 years (2004/5-2012/13)
- Reduced by 11.4% during the past 4 years (2009/10-2012/13)
- **Reduced by 5.3% during the past financial year (2012/13)**

11

Table 2: Highlights on broad criminal categories (SA Police Service, 2014)

Although the numbers are declining in almost all categories during last years, the criminality is still pretty high. Because of the increasing number of security services demanded by the population, especially because the property related crime is still increasing, there is a high demand for object security, escorts, safety measures for buildings, emergency dispatch services etc. It is an emerging market segment in SAR and the need for reliable information systems is highly expectable and it is, without a doubt, a business opportunity for NAVERTICA company (SA Police Service, 2014)

➤ **Positive social aspects**

Even though there are not many, it is possible to find some positive social aspects in the South African society for business purposes. It is all based on our point of view. Due to almost none unemployment grant from the government, the unemployed workforce is often very eager to find a job and they are willing to sacrifice a lot for it and to work hard. Harder than we are used to in Europe, where we take many things for granted (such as healthcare or education), even if we don't exactly realize it. The initiatives here are generally more grateful for a

job and they deliver on 100 percent and they are able to work independently. This promises very good expectations for recruitment process of new employees for NAVERTICA in South Africa (Kingdon, Knight, 2004).

4.3.4 Technological factors

From the technological point of view, South Africa is the most developed country in whole African continent and provided services and available technologies are similar to those accessible in Czech Republic. Technological factors that are directly affecting business of NAVERTICA are mainly internet connection, mobile networks or prices of fuel and initial purchase costs of vehicles.

➤ *Internet connection*

Overall, the internet connection coverage in South Africa is suitable for business, especially in Johannesburg. The downfall is that the available connection speed is kind of outdated if we compare it to Europe. This could mean complications while transferring data between NAVERTICA's HQ in Brno (or any other office) and the one in Johannesburg. Available speed in Johannesburg is ranging from 0.5 to 5 Mbit/sec, which is in comparison to common 50-100 Mbit/sec in Czech Republic, rather insufficient. There is unfortunately no possibility to acquire faster line, due to the problems with backhaul connection of South Africa into the international internet network system. Therefore, prices of internet connection are stagnating on high levels. This should be fixed in near future due to the plan of South African government to improve the backhaul network and to connect South Africa to another two optical backhauls and thus decrease the internet connection prices. The time horizon of this upgrade is unknown (Lewis, 2005).

This is a key issue for NAVERTICA because the company is directly dependent on the internet connection and it is an essential part of company's infrastructure.

It mainly decreases the quality of long-distance real-time support. Nevertheless, the 5 Mbit/sec line should be able to cover it, at least for now.

➤ ***Mobile services***

According to Buys and Malebo (2012), the cellular network in South Africa and its coverage is above standards and the prices are very attractive for businesses. Again, if we compare this to Czech Republic, it is not much of a surprise that its perceived like this from Czech entrepreneurs. The prices are still extremely high in Czech Republic, even after the latest introduction of new prices, and South Africa is way more advanced in their cellular services pricing strategies. The only fact that brings down the attractiveness is that the mobile data transfers are fairly limited.

➤ ***Automotive factors***

Purchase of automobile is essential for NAVERTICA and their sales representatives as they are required to meet with potential customers on daily basis and the system of public transportation basically doesn't exist. According to latest data, the petrol prices in South Africa are pretty stable and they are lower than in Czech Republic, which is good news for the company. (See Table 3).

Petrol	Reef			Coast		
	Unleaded		LRP	Unleaded		LRP
	93	95	93	93	95	95
06 August 2014	1408	1433	1408	1384	1392	1392
02 July 2014	1408	1433	1408	1384	1392	1392
04 June 2014	1379	1402	1379	1355	1361	1361
07 May 2014	1401	1424	1401	1377	1383	1383
02 April 2014	1416	1439	1416	1392	1398	1398
05 March 2014	1411	1432	1411	1391	1395	1395
05 February 2014	1375	1396	1375	1355	1359	1359
01 January 2014	1336	1357	1336	1316	1320	1320

Table 3: Petrol prices for 2014 indicated in cents per litre (Energy Dept. of South Africa, 2014).

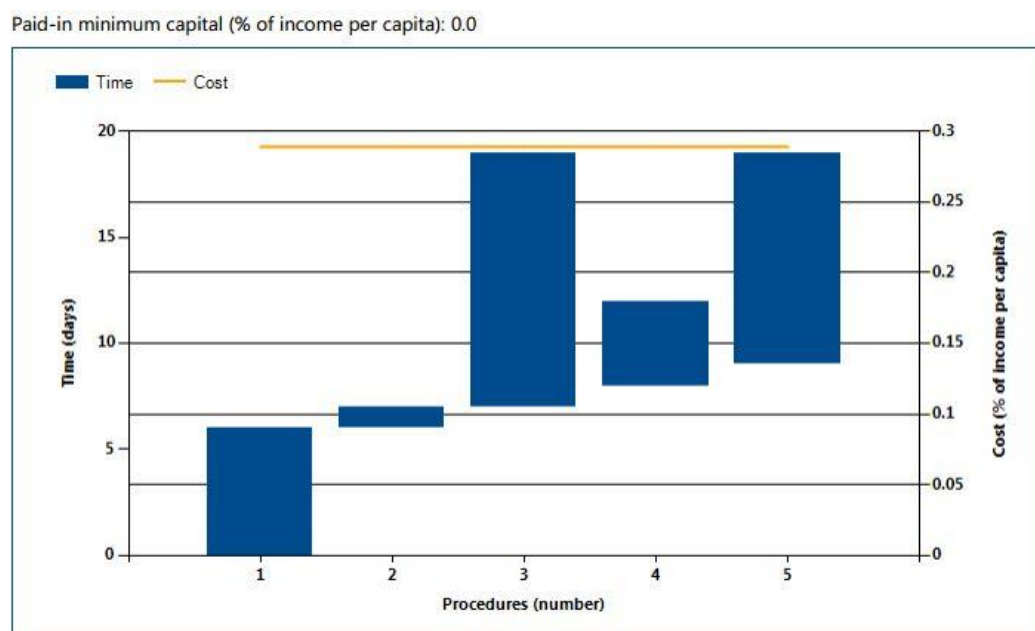
4.3.5 Legal factors

In this part the author thoroughly analyzes the legal aspects NAVERTICA should be aware of in South Africa, Johannesburg. The research conducted every year by International Finance Corporation together with The World Bank Group is called Doing Business 2014 and it measures the business regulations in target region.

The overall ranking of Johannesburg in the research of 2014 is 41, which is the same position as in 2013 (out of 189 economies worldwide). Also, the economy's distance to frontier (DTF) is measured and Johannesburg scored 70.93 in 2014 points in comparison with 2013, when it scored 70.64. This means positive change up of 0.29 points. The Distance To Frontier represents the highest performance observed of each of the indicators across all economies which were measured in Doing Business research. The scale is from 0 to 100, where 0 represents the lowest performance and 100 the frontier. Basically higher the number, the better has the economy improved and the better conditions there are for setting up a new business.

➤ ***Starting a business***

South Africa ranked at position 64 in 2014 (out of 189 countries), which is a significant decrease than in 2013, where it ranked 56th. This is not very positive for NAVERTICA. This is mainly caused by the total number of procedures needed for setting up a business (5) and the total number of days required to register a firm, which is 19. Also the long time needed for registration for income tax, VAT, and employee withholding tax procedure lowers the rating (12 days). What it takes to start a business in South Africa (time/costs) can be seen in the following graph:



Graph 9: What it costs to start a business in South Africa (*Doing Business*, 2014)

➤ ***Getting electricity***

South Africa is in 2014 ranked as 150th, which is a minor improvement from 2013, when it was ranked 151th. This procedure is slowed down especially by the ESKOM energy provider which was already mentioned in chapter 3.2.2,

who is the only provider of electricity on Johannesburg and therefore it takes very long to set up new electricity contract for new property. The application for installation gets processed sometime between 90-150 days and this fact brings the rank under the average.

➤ ***Registering property***

Doing Business rank for South Africa for 2014 is 99, which is decrease from 2013 when it was 95. The main factors which are influencing this is the time needed for the whole process of registering a new property for business purposes, being 23 days together with 7 procedures, such as obtaining a rates clearance certificate from the local authority or obtaining an electrical compliance certificate from a certified electrician, which is usually a long time process due to overwhelmed ESKOM provider.

➤ ***Getting credit***

Getting credit procedure is ranked 28th in 2014, whereas in 2013 it was 24. This means minor decrease but overall the result is very good. Furthermore the DTF index is 81.25%, which is one of the highest indexes. This is mainly caused by the government plan to support new business in order to accelerate the economy.

➤ ***Paying taxes***

In paying taxes, South Africa has ranked itself as 24th, which is a remarkable result. In 2013 it was 26, so this factor is improving. This is mainly caused by the implementation of new legislation for tax collection by the government. The rank has significantly improved since the introduction of the system in last quarter of 2012 (rank was 44 in 2012). The overall amount of hours needed to prepare, file and pay the corporate income tax, the value added tax and social security contributions is 200 hours/year, which is above average.

➤ ***Trading across borders***

The cross-borders trading in South Africa is ranked as 106th in 2014 and was ranked 110th in 2013. This is due to the long procedures needed to undergo while

exporting or importing out and into the country. It is the main reason why South Africa is not ideal country for this kind of international business. For NAVERTICA purposes, which are to operate on South African market, this is not an obstacle.

➤ ***Enforcing contracts***

South Africa is ranked on 80th position in 2014, same as in 2013. This is mainly due to extremely long time needed to resolve a dispute, which is counted from the moment one side files the lawsuit in court until the payment is made and the time needed is 600 days.

➤ ***Resolving insolvency***

This factor is also one that needs to be taken into consideration while doing business in unknown environment with new clients. South Africa is ranked 82nd, both in 2014 and 2013 and this is mainly because the recovery rate is 35.5. The rate calculates how many cents on the dollar claimants (creditors, tax authorities, etc.) recover from an insolvent firm. This puts high pressure on NAVERTICA to carefully choose their new partners and customers (Doing Business South Africa, 2014).

4.3.6 Environmental factors

There are no known environmental factors in South Africa, nor regulations, which would be directly influencing or affecting the business of NAVERTICA. The Green Liberal party of South Africa, which is no longer functioning, was trying to pass the bill for eco-taxation in 2011, but due to the still negative attitude towards this trend, which is more common in other parts of the world (e.g. Europe), this “attempt” only managed to leave footprints and no real results were accomplished. South Africa still needs to reach the needed level of consciousness concerning green politics (SA Government Online, 2014).

4.4 Porter's 5 forces analysis

In order to analyse the sector even further, the Porter's 5 forces model is applied by the author:

4.4.1 Threat of new entrants

The conditions for new entrants to enter the South African market are pretty modest and it is more or less easy to start the business in IT sector as there are no real legal or any other restrictions according to the PESTLE analysis. In accordance with NAVERTICA Annual Report 2013, there is a high threat of new entrants if we consider customers who are hiring small companies in order to develop an IT solution which would fit their special requirements. These companies often supply their know-how to the programmers which is needed to develop the desired system and by this there are plenty of newly established substitutes, but it is on a very small scale. It is possible this trend will develop into something bigger in the future, but for now, this is not considered as a threat for NAVERTICA. It is mainly matter of size. These small competitors are often not able to fund and further develop their system, nor implement it on a bigger scale. Hiring new employees doesn't resolve this situation as the level of difficulty is rising exponentially and the financial requirements to back it up are rising with it. Therefore, the outcome is often that there is a stagnation on a certain level of size and it is not further developed.

These types of enterprises are on a very different level than NAVERTICA. The most part of NAVERTICA's work is connected with expanding of the whole IT system, which has been already implemented and improving and adjusting its functionality and options together with meeting customer's requirements.

Therefore, we can say that the threat of new entrants is fairly high, however by entering the market and creating substitutes, these companies don't create adequate competition and therefore they are not a threat for NAVERTICA on those market segments the company is focusing on.

4.4.2 Threat of substitutes

After analysing the competition on South African market, we can say that the threat of substitutes is very high. The information systems are a very complex product and there are a lot of possible substitutes available but their functionality differs. The most threatening substitutes for NAVERTICA are therefore identified as follows:

➤ ***SAP***

This is one of the biggest substitutes on the market of information systems. It is worldwide known product, which has huge customer base all around the world and is targeting mainly midsize to large organizations in almost all industries and sectors worldwide. SAP's applications include multiple modules in order to satisfy the customer. They cover areas like sales, marketing, services, interaction centres, web channels or partner channel management. SAP also offers their cloud solutions called Business ByDesign and the main purpose of this system is to cover both ERP and CRM. Among the biggest advantages belongs high amount of specialized solutions and a lot of positive references among the customers. The biggest disadvantages of this system are very high initial costs of the implementation, the prices of licences and in some cases, outdated technological aspect of the whole platform. However, generally, SAP is considered as the most common information system used in the world. It is typical supra-national information system and it has a great popularity (SAP, 2014)

➤ ***Salesforce.com***

SalesForce has become one of the largest software publishers in the world. It is a very powerful player on the IT systems market. It is a leading provider of CRM software applications, which is one of the newest trends in CRM industry. It is delivered to the customer via software-as-a-service (SaaS) or in cloud model. Their products are designed for all sizes of businesses worldwide. The advantages of the system are speed, simplicity and elegance of the whole process of implementation. Conversely, disadvantages are functionality of the

whole system which is dependent on internet connection as well as low amount of possibilities of special custom adjustments required by their customers (Salesforce.com, 2014).

➤ ***Oracle / Siebel***

These solutions are primary databases used by big corporate customers with infrastructure from the same supplier. These solutions are extremely expensive and technologically sort of outdated. That is the main reason why lately, Oracle has been trying to innovate their solutions to be able to keep up with the fast developing competition (Oracle, 2014).

➤ ***Other Microsoft Dynamics products***

A typical example of this substitute is Microsoft Dynamics Great Plains (GP). This is a product, which NAVERTICA doesn't have in their product portfolio, but it is still considered as a substitute to NAVERTICA's products. The Microsoft Dynamics GP has been delivering comprehensive out-of-the box business management solutions; from management to manufacturing operations to power diverse small and mid-size companies around the world. Advantages are rapid and flexible deployment of the system and world-class support network. Disadvantages are mainly high initial costs for the customer (Microsoft, 2014).

4.4.3 Threat of rivalry

Threat or rivalry in the South African market is expected to be moderate. As the NAVERTICA Annual Repot 2013 states, the situation in South Africa is a bit different from Czech Republic. For the public tenders offered by potential customers, the number of applicants is significantly lower than in Czech Republic. This is furthermore supported by Microsoft, who claims, that the rivalry in the sector of IT systems solutions in South Africa is not high due to the often very specific requirements of the customers. This opens opportunities for NAVERTICA to satisfy the needs of potential

customers. The analysis of competition on the South African market showed that competitors often offer solutions which are more or less general and not very diversified. Due to the experience of NAVERTICA in implementing more customized and sophisticated solutions, the threat of rivalry in this particular sector should be moderate, as stated above. However, the existing rivals on the South African market which are present for longer time, have considerable advantage thanks to know-how of local market and their experience.

4.4.4 Power of suppliers

The threat of suppliers is considered high. The main reason for this is the fact, that Microsoft is the primary supplier of basically all information systems included in NAVERTICA's product portfolio. There are many rules and regulations from the side of Microsoft, which are conditional for the process of implementation of their systems. And the disadvantage here is that Microsoft is free to adjust or change those rules as they like. The dependency on Microsoft is that high that it probably wouldn't be possible for NAVERTICA to continue in their business activities if there was a conflict between them and Microsoft. This puts an extreme power into the hands of the supplier and it needs to be approached very carefully with extreme importance. Therefore, good relationship with the local subsidiary needs to be pursued from the side of NAVERTICA from the very beginning. Consequently, not only the local Microsoft subsidiary has big supplier power, but also the transnational headquarters of Microsoft, which has the ultimate power to change any rules of distribution or selling of licences at any time.

4.4.5 Power of customers

According to NAVERTICA Annual Report 2013, there is currently only one active customer in South Africa, which is ITEC company. Naturally, having one customer is not the situation NAVERTICA would like to have in the future. More customers are expected to be acquired when the subsidiary in South Africa is fully established and functional. To put it into perspective, the power of customers is considered very low. And the answer to this is in NAVERTICA's verticalization of their products (as mentioned in chapter 4.2.5). Due to this, it is very unlikely and hard for the potential customer to put some pressure on NAVERTICA, or even threaten to leave them, because this kind of ultimately custom solutions that NAVERTICA is offering, would be almost impossible for a different company to administer and control. And if so, it would be very long and expensive process of adaptation.

4.5 S.W.O.T. Analysis of NAVERTICA

By using the S.W.O.T analysis, the author identifies the strengths and weaknesses, which are influencing NAVERTICA from the internal point of view and opportunities and threats, which are concerning the external factors for entering the South African market. This analysis is based on previous research conducted in this thesis and it will serve as a useful tool for NAVERTICA. In order for them to be successful, the company needs to take these factors into consideration and respond to them accordingly.

4.5.1 Strengths

- Good financial health of the company
- Competitive advantage due to vertical solutions
- Multilingual staff able to satisfy customer's needs in foreign languages
- Extensive know-how of employees

- High experience with IT systems market segment
- Experience with customized solutions and ability to adjust and develop them in accordance with customer's special requirements
- Experience with international projects
- Support from Microsoft
- Ability to cover a large stretch of customer's needs

4.5.2 Weaknesses

- Higher expenses on staff education
- Long period of time needed to train employees
- Inability to compete with local South African competitors who have significant experience with local market due to their long functioning
- Expensive travelling between of NAVERTICA's employees between South Africa and Czech Republic
- Insufficient knowledge of local market
- Lower amount of potential customers due to product verticalization
- Dependancy on Microsoft

4.5.3 Opportunities

- High numbers of potential job applicants – they are eager to work and they are active
- Political pressure on development of SME's
- Potential of developing a specialized solution intended for security services market
- Lower taxes
- Lower expenses on fuelling and mobile services
- Very low expenses on environmental taxes
- Big concentration of companies which are in need of information system

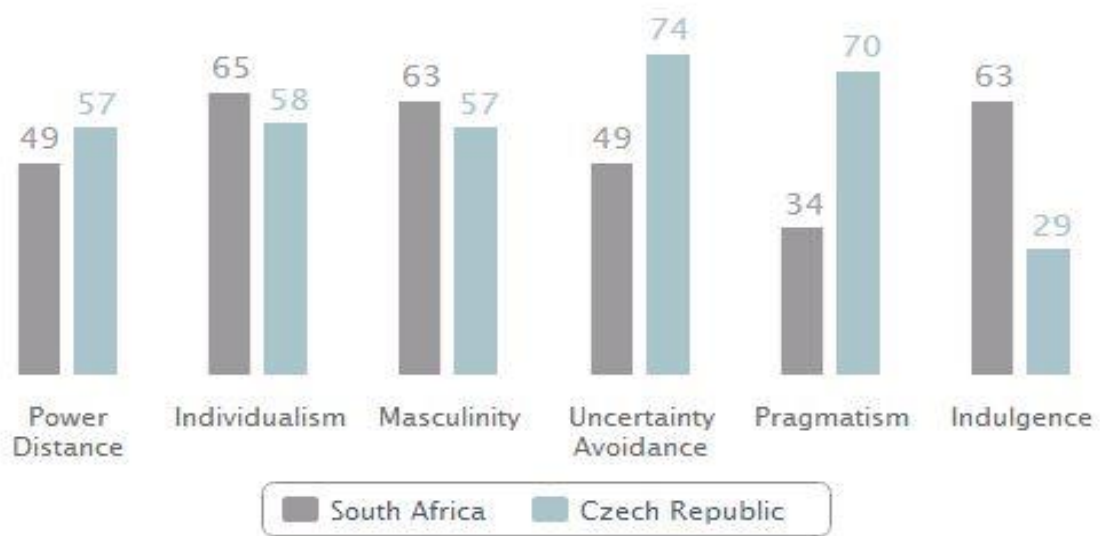
- Competitors usually don't provide specialized vertical solutions
- Specialized solutions from NAVERTICA are basically irreplaceable by substitutes

4.5.4 Threats

- Unstable political situation in South Africa
- Political pressure on black "empowerment"
- High level of criminality
- Higher expenses on safety measures
- Possible exchange rate fluctuations between CZK and ZAR
- Low quality and speed of available internet connection
- Competitor's experience with the local market
- Very strong bargaining power of suppliers (Microsoft)
- High amount of substitutes of non-specialized solutions
- Low market entrance barriers for new companies

4.6 Hofstede's Cultural Dimensions

In this chapter, the author explores the cultural dimensions of South Africa using the 6-D Model of Hofstede. With this analysis, the overview of driving factors of South African culture will be defined. For the analysis purposes, the graphic model of culture dimensions comparison between Czech Republic and South Africa is added and then analysed:



Graph 10: Hofstede's dimensions comparison of Czech Republic and South Africa (The Hofstede Centre, 2014).

4.6.1 Power distance

In this dimension, South Africa scores 49 points, which means that people incline to hierarchical system in which they have their own place without any need of further substantiation. For people in South Africa the ideal boss is someone who is very benevolent, employees expect to be told what to do in their job and very popular and centralization is very popular. Hierarchy in an organization reflects inherent disparity. This value differs only few points from Czech Republic, where the score is 57. Czech Republic is more hierarchic society and the preferred values are same as in South Africa.

4.6.2 Individualism

In this diagram, South Africa is ahead of Czech Republic with 65 points in comparison to 58. Both countries are very similar here as well. South Africa is an individualistic society with rather high preference for a social network where people take care mainly of themselves and their families. In the individualistic societies there is inclination to loss of self-esteem when people feel some guilt. The common model between employer and employee is on strictly professional basis, contract based relationship which is often based on mutual advantage, promotion and hiring decision are based on merit only and the management of businesses consists of individuals, rather than team management structure. To put this into common language, everyone does his work and doesn't care much beyond this border. It has a lot to do with people's self-image and the way they are perceived among the colleagues. Most of people don't take this into account and they focus on themselves only. This goes for both South Africa and Czech Republic.

4.6.3 Masculinity

In this part of the 6-D model we can see that South Africa scored 63 and Czech Republic is very close with 57. The result is again almost at the same level for both countries. Higher score in this model means that the society is masculine, which means that is driven by competition, success and achievement. Conversely, with low score the society would be feminine and the most important values would be quality of life as well as caring for the society. South Africa is a masculine country which indicates that people here live in order to work. When it comes to management, it is expected to be assertive, aggressive and decisive. As stated above, the pressure here is on competition and performance and conflicts in the society are often dealt by fighting them and trying to resolve them in the shortest time frame possible.

4.6.4 Uncertainty avoidance

In this part of the model, we can observe first bigger gap between Czech Republic and South Africa. South Africa scored 49 points, whereas Czech Republic has 74 points.

This dimension of the 6-D model represents the way the society is able to deal with unknown future and situations. South Africa has score of 49, therefore the culture has rather low preference for avoiding the uncertainty. Generally, societies with low UAI have more relaxed attitude with focus on practice rather than principles and deviance from the norm is easily tolerated. People incline to general belief that there shouldn't be more rules except those that are absolutely necessary and if the rules are too ambiguous or they don't work, they should be replaced or abandoned. Hard work is only undertaken when absolutely necessary and all schedules are more or less flexible. There is no natural precision or punctuality among people and innovation is not seen as threatening factor. On the other hand, Czech Republic scores 74 points and this means that the culture has high preference for avoiding the uncertainty. Commonly, countries with high score in this dimension, are intolerant of unorthodox behavior or ideas. There is a need for rules (even for rules that are clearly not working) and time is money in this culture. People are always busy and they work hard, precision and punctuality are the norm and innovation is often resisted. Important element in individual motivation is security.

4.6.5 Pragmatism

This dimension represents the ability of society to deal with challenges of the present and future and at the same time to maintain some links with its own past. South Africa and Czech Republic differ here by many points. South Africa with the score of 34, which is low, and Czech Republic with high score of 70. This means that these two societies prioritise their existential goals differently. South Africa is more normative than pragmatic. There is a strong concern with establishing the "absolute truth", they are normative in their thinking. There is a great respect for their traditions and rather small propensity to save for the future. There is a strong focus on achieving quick results. In Czech Republic, there is a pragmatic society. People there believe that "truth" depends on every situation put in context and time. It is easier for them to adapt traditions and to change conditions. A very strong propensity to save and invest in their future is present as well as perseverance in achieving results.

4.6.6 Indulgence

There are two levels of this dimension, on one side there is indulgence, which means there is a relatively weak control of people's desires and impulses and on the other side there is restraint, which means the control is strong. With South Africa scoring 63, it is clear that the culture is indulgent. People generally exhibit willingness to realize their impulses and their desires together with enjoying life and having fun. There is rather positive attitude and tendency towards optimism. Leisure time has a big importance in their lives and spending money is part of their lifestyle. Conversely, in the Czech Republic, with low score of 29, this means that the Czechs are not indulgent. They have tendency to cynicism and pessimism. They don't put so much emphasis on their leisure time and they control their desires. They often feel restrained by social norms and they often feel that indulging themselves is wrong.

After analyzing the 6-D Hofstede cultural model, it is clear that there are several differences between the cultures of South Africa and Czech Republic. However, this is expected to happen when considering the geographical distance between both countries. Although there were some big gaps in uncertainty avoidance, pragmatism and indulgence, the rest of the models were more or less at the same level and the cultural gap is therefore not so alarming. This mainly means that setting up a business in South Africa for a Czech firm will not bear so many difficulties in adaptation to local culture, if the three gapped dimensions mentioned above are handled well. Preparation and cultural knowledge together with knowing what to expect is the key in this case for successful and conflict-free cultural environment in the company.

5. Evaluation and recommendations

In this chapter, author presents evaluation of the most critical indicators of the analyses, which were conducted in this thesis. This evaluation is connected with proposal of suitable market entry mode of NAVERTICA into South Africa. The recommendations are based on the outcomes of theoretical framework and analytical part of the thesis.

Triggers for market entry

A company can be pushed to go international by many factors. The decision of NAVERTICA to go international with their business is based on process of developing strategy for possible market entry strategy. This process has to be triggered by some factors. NAVERTICA is triggered by the proactive triggers, thus being proactive company. The biggest proactive trigger for NAVERTICA is that South Africa is huge emerging market with new business opportunities and the market growth is expected to rise in the future.

Another proactive trigger for NAVERTICA is that the company has already acquired a customer in South Africa, ITEC, and their cooperation can bring significant results in a form of experience with South African market. Also the promise of more possible contracts in this fast developing market is one of the biggest triggers for market entry for NAVERTICA.

Another factor that is considered to be direct stimuli for NAVERTICA is that the South African government is performing necessary steps in order to accelerate, support and elevate development of new SME's entries into the country.

Mode of market entry

The possible modes of market entry were analysed in the theoretical part of this thesis. There are three possibilities of how to enter the foreign market. Firstly, it can be done via indirect or direct form of exporting, however it is highly unlikely for NAVERTICA to

think about this entry mode. Firstly, the products they produce are not exactly exportable and secondly, the costs of exporting to South Africa would be unreasonably high.

Secondly, the foreign market entry could be done via non-equity based methods, such as licensing or franchising. This option is inadmissible for NAVERTICA. The main reason is that the company has acquired a lot of priceless know-how and experience and this is not something the company would like to share with any potential competitors or partners and thus lose their competitive advantage on the market.

Thirdly, there are equity-based methods of foreign expansion. Due to the company's unwillingness to share their know-how, experiences or management skills, the joint venture option is out of the question. In accordance with NAVERTICA's vision for the future development of the firm, the evaluation of all possible methods and the complexity of the products of NAVERTICA, the most suitable mode of foreign market entry for the company is establishing a new subsidiary, either by purchasing a premise or greenfield operation. Because the greenfield operation is basically the hardest possible method in terms of execution, costs and time-frame, the recommendation is to establish a subsidiary by purchasing a premise. Thanks to this the company will be able to control and manage their business activities in the South African market on the highest effective level possible. This recommendation is based on factors identified in the analyses in this thesis.

Analysis of NAVERTICA

The analysis of NAVERTICA company provided us with an insight into the company. The company has a strong history, therefore the amount of experience and gained knowledge is significant. Also the company's strong position on the market shows good predictions for foreign expansion.

From the balance sheet of the company and their profit and loss account reports, it is apparent, that the company is in good economic health. Therefore, the company should be able to afford establishing a foreign subsidiary in South Africa.

As a result of SWOT analysis, the main strengths of NAVERTICA are identified as good financial health, competitive advantage due to the vertical solutions, high degree of experience of employees and with systems implementations and with international projects. As weaknesses, we can choose the main indicators, such as inability to compete with some local competitors on South African market, insufficient knowledge of the local market and high dependency on Microsoft, as NAVERTICA's supplier. When it comes to opportunities on South African market, there are many. To highlight the main areas: there is a high number of potential job applicants, political pressure on development of SME's is high, there are lower corporate taxes and lower expenses on fuelling and mobile services. Also the competitors in South Africa don't provide such specialized vertical solutions as NAVERTICA, which gives them big opportunity to gain market share. Among the biggest threats are high level of criminality, political pressure on black empowerment, unstable political situation or possible exchange rate fluctuations. There is also high amount of substitutes for their products and low market entrance barriers for new competitors.

The biggest competitive advantage of NAVERTICA is their vertical specialization in multiple products. This gives them advantages in form of: smaller error rate due to the frequency of implementation, less time needed for implementation, better functionality of the solutions due to developing process and better quality of customer support due to experienced staff.

Business environment analysis

According to political factors analysed in this thesis, South Africa is considered to be rather unstable country. This is caused mainly due to its political stability index, which is among the highest in the world (25th). The index for 2013 is 7.0, which is very high. The global peace index (GPI) ranked South Africa as 122nd out of 162 countries, which is not appealing as well. Moreover, there is rather high level of corruption in the country and this could lead to unethical business practices. South Africa is placed on 72nd position worldwide, which is similar to Czech Republic. Hopefully this trend will decrease in the future to make the business environment more transparent. While talking

about another crucial political factor, the apartheid impacts need to be mentioned. The presence of Black Economic Empowerment (BEE) is a response to uneven distribution of wealth across the black population in the country. This bill forces new business to employ black employees in order to eliminate the differences in the country. Other factors, such as the situation in the current government, which is apparently under the power of Jacob Zuma and his African National Congress, are present. This makes South Africa politically unstable country, but this fact should not be an obstacle for NAVERTICA's business at any level, thus it is safe to enter the market from political point of view.

Furthermore, the economical factors are more or less attractive for expansion. The positive for NAVERTICA is that South Africa has fast emerging market and the biggest in Africa. The largest sector is services, where NAVERTICA specializes in. Positive factor is also the fact that after the global economic crisis, prices of premises went down significantly. Another fact that needs to be mentioned, is the corporate tax rate, which has very attractive development for NAVERTICA. In 2013, the tax rate has reached its historical minimum at 28 percent. Other factors, such as GDP growth or GDP PPP are on average. The factor that needs to be taken into consideration is exchange risk, which can directly impact the costs of transactions between the HQ in Brno and possible new subsidiary in South Africa.

From the social point of view, South Africa is very diverse country with its 50 million population. However, English is an official language and is widely used in business environment, so there shouldn't be a problem for NAVERTICA in this matter. The positive development of criminality (it is decreasing significantly) is also a good point for expansion. There are also very good expectations for recruitment process in South Africa due to the high amount of unemployed qualified workforce.

The most important technological aspects of the possible expansion are mainly internet connection, mobile services and fuel costing. The internet services especially could use some upgrade in South Africa, because it may not be sufficient for NAVERTICA and its purposes. So there is a certain risk for the company. On the other side, the mobile services are way above standards and fuel prices are way below average.

Lastly, there are several legislative factors that could influence the expansion. Among the most important indicators are starting a business, registering a property or resolving insolvency. Among all these factors, there are not any alarming results, therefore there are no legislative barriers for expansion of NAVERTICA into the South African market. To complete this part, there are no environmental factors known, which would be directly influencing the business of NAVERTICA.

Analysis of the industry

The foundation of this analysis lies within the frame of Porter's 5 forces. The threat of new entrants to the market is fairly high. This is mainly caused by the conditions for entering the market, as well as presence of almost no legal or any other restrictions in order to start business in South Africa. However, because of the differentiation strategy of NAVERTICA, the new entrants to the market are not such a big threat for the company. When it comes to substitutes, it is completely different situation. There is high number of possible substitutes, therefore we can say that the threat is high. Among those substitutes are mainly systems from SAP, Oracle, Salesforce.com and other Microsoft Dynamics products. The rivalry is expected to be moderate on the South African market. This is mainly caused by low number of applicants for public tenders and the fact, that there are very specific requirement from the customers in South Africa for the IT system, therefore specialized solution is needed. While talking about power of customers and buyers, the power of customers is considered to be low due to the fact that the verticalization of NAVERTICA's products is very complex, therefore it is highly unlikely for the customers to put pressure on NAVERTICA and because it is almost impossible for the customer to leave and find someone who would be able to catch up with the very long and expensive process of implementation. The power of suppliers is high because NAVERTICA is directly dependent on one supplier, that being Microsoft. This bears a lot of risks within because Microsoft is the primary supplier for basically all information systems that are included in NAVERTICA's portfolio.

Competitors

The competitors analysed in this thesis are major players on the South African market. Nevertheless, NAVERTICA is focusing on different type of specialization, using differentiation strategy. Thanks to this verticalization of their products and services, the competition isn't that high or alarming that it would aggravate the market entry to South Africa.

Based on all the facts acquired in this thesis, the author recommends NAVERTICA to enter the South African market and establish new subsidiary for their business. There is a huge potential on the market and the chances that NAVERTICA can be successful are high. The ideal place for this expansion would be Johannesburg, which is one of the 50 largest urban agglomerations in the world and the South African center of trade with the largest economy and the wealthiest status in South Africa.

6. Conclusion

In conclusion, it is necessary to get back to the objectives that were set at the beginning of this thesis.

The literature was critically review and described by the author in order to apply theoretical frameworks. To be precise, the theoretical foundation of the thesis was focused on internationalization process and international strategy as well as several forms of internal and external analyses, such as PESTLE, Porter's 5 forces or S.W.O.T. analysis.

Furthermore, the analyses of external business environment and internal analysis of NAVERTICA were conducted. The specifics of South African market were identified and described and linked to the business of NAVERTICA company. From the outcomes of these analyses it is apparent that South African market has high potential for NAVERTICA and their solutions in the information systems industry.

At the end of the thesis, the summarizations of the analysis were presented and the most critical factors were pointed out. Based on these findings from the conducted analyses, justified recommendations to enter the South African market and to establish new subsidiary, were given.

By this, the objectives set at the beginning of the thesis, were accomplished.

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